reason

Free Minds and Free Markets / February 1984 / $2.00

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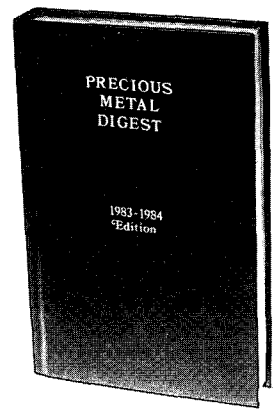

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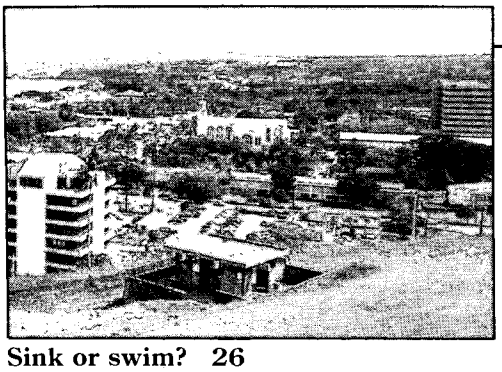
Free Minds and Free Markets

FEATURES



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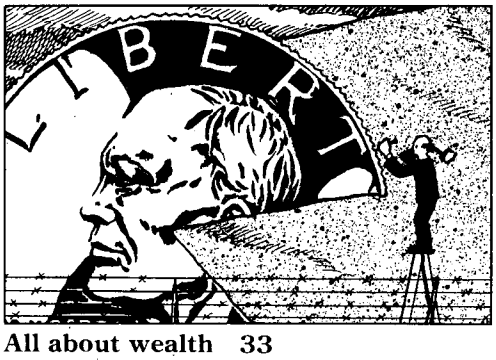

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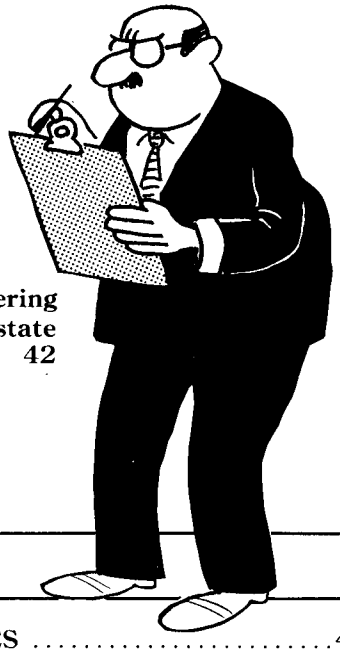

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NOTEs

As the new editor-in-chief of REASON, I decided to bring on board some new contributing editors, and I am pleased to announce that a number of good, liberty-minded writers who have written for us over the years have responded affirmatively to my invitation.

—*Samuel Blumenfeld* is a free-lance writer who specializes in educational issues, particularly private schooling and teaching theory. His past contributions to REASON include "Why the Schools Went Public" (Mar. 1979) and "The Victims of 'Dick and Jane' " (Nov. 1982).

—*Thomas Hazlett* is familiar to REASON readers as an interviewer and investigative reporter extraordinaire (his most recent examples of the two being an interview with George Stigler and an investigation of Houston's nonzoning). Tom started writing for REASON in 1976 and has gone on to obtain a doctorate in economics and to pursue a writing career simultaneously with teaching "the dismal science." He was recently made a contributing editor of *Harper's*.

—*Michael McMenamin* is an attorney who does writing on the side, having gotten his start in REASON with "Milk, Money, and Monopoly" (Mar. 1976). He writes for and is a contributing editor of *Inquiry*, as well.

—*Jeff Riggenbach* is a nationally syndicated columnist and radio commentator. Jeff's appearances in REASON have ranged from a review of *Clockwork Orange* (June/July 1972) to "Vroom to Grow" (Jan. 1983).

—*Peter Samuel* is a Washington-based writer for the Murdoch newspaper chain who has delighted our readers over the last few years with pieces ranging from the arresting vignette ("Dog Days for the Small Entrepreneur," May 1981) to the in-depth probe ("Unload the Subways," May 1982); his most recent contribution begins on page 37 of this issue.

—*William Tucker* is a New York-based journalist who, with articles like the award-winning "Environmentalism and the Leisure Class" in *Harper's* (Dec. 1977), has begun to shift the focus of environmental discussion toward an appreciation of the market; his latest contribution to REASON was "Conservation in Deed" in our 15th-anniversary issue (May 1983).

—*Walter Williams* is another economist-cum-writer, whose nationally syndicated column unrelentingly offers readers the unexpected twist of individualist, free-market analysis from a black economist; his most recent REASON contribution begins on page 59 of this issue. We expect that these writers' continuing contributions to REASON will bring you continuing insight and enjoyment.

—M.Z.

My travels on behalf of the Reason Foundation took me to the Midwest and Florida recently. In November I addressed the Discussion Club of St. Louis, one of the nation's longest-running free-market supper clubs, on the topic "Restoring the Free Enterprise System." While in St. Louis I was interviewed on CBS radio affiliate KMOX on the subject of deregulation, as set forth in the Reason Foundation's book *Instead of Regulation.* Then it was on to Wichita, where I briefed Chamber of Commerce leaders on current trends toward privatization of local public services and deregulation of urban transit (for a report on Wichita's approach to transit, see page 18).

In December I was one of nine faculty members at a two-day national symposium on private-sector fire protection sponsored by Comprehensive Emergency Management Associates in cooperation with the Department of Management of the University of Central Florida. While on the East Coast I also attended a one-day conference entitled "Antitrust: Market Process and Public Choice Perspectives," hosted by the Center for the Study of Market Processes at George Mason University.

REASON has been honored once again by fellow journalists. Two of 1982's cover stories—Dina Rasor's "Fighting with Failures" (April) and Peter Samuel's "Unload the Subways" (May)—were finalists in the annual Mencken Awards, presented by the Free Press Association. And cartoonist John Trever of the *Albuquerque Journal*, whose work regularly appears on our Brickbats page, took first place for the best cartoon of 1982 (on protectionism). Two other REASON articles finished in the top 10 in the University of Missouri School of Journalism's annual Business Journalism awards—James Hickel's "Lemon Aid" (March 1983) and "Subverting the First Amendment" by Michael McMenamin and William Gorenc, Jr. (January 1983).

—R.W.P.

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EDITORIAL

Robert W. Poole, Jr.

The Static Fallacy

One of the arguments used by those urging some sort of industrial policy is that this country's "basic industries" are going down the tubes. The United States cannot remain a first-rate country, it is argued, unless it possesses a large, robust auto industry, steel industry, shipbuilding industry, etc.

Which industries are defined as "basic," of course, depends on which union chief or corporate magnate is making the speech. But aside from being arbitrary, there's a more fundamental problem with the whole idea of basic industries. Those who use the term seem to view the present configuration of industry and society as if it had always been that way and (implicitly) always should be.

But one only has to take a look around to see the fallacy in this idea. Entirely new industries have grown up to produce goods that no one could even *imagine* 20 years ago—personal computers, portable telephones, car stereos, solar panels, video games. New service industries like overnight package delivery, direct broadcast satellite TV, and video stores were unknown in the 1950s, as well. At the same time, other products and services have passed into history—when was the last time you saw a mechanical adding machine, a mimeograph machine, or a hamburger-stand carhop?

The essential point is that the world is not a static place. A free-market, capitalist economy is a dynamic *process* of trial-and-error innovation and entrepreneurship. Motivated by the hope of making money, people who think they have a better idea burn the midnight oil perfecting it, then go out and try to convince venture capitalists to back it. The ultimate test, of course, is whether the new product of service meets anyone's needs. And that can only be determined in the rough and tumble of the competitive marketplace. Every year tens of thousands of new businesses start up—and tens of thousands fail to pass muster with consumers.

The idea of "basic industries" is that certain products or companies should be exempted from this dynamic process, because they are somehow "too important" to be left to the free play of supply and demand. Where that would lead in practice is easy to project, by observing the hopelessly inefficient automobile, coal, railroad, and steel industries of Great Britain—all of which were nationalized on exactly those grounds.

The idea of basic industries is but a short step removed from Karl Marx's concept of "the means of production." Socialists of all stripes have used this phrase, referring to whatever set of industries happened to exist at the time. Had the means of production been nationalized in 1867, the year *Das Kapital* first appeared, there would have been no automobile industry, no aviation industry, no aluminum industry—and certainly no computer industry—to nationalize. The question to ask socialists is whether, had socialism triumphed in 1867, there would *ever* have been an auto industry, an aviation industry, or a computer industry. With the "means of production" taken care of, and the profit motive extinguished, who would have risked their (nonexistent) fortunes and devoted 20 years of personal struggle to create aircraft or computers or Xerox machines?

In China the socialist revolution occurred in 1949. That's why the "means of production" in China still include steam locomotive factories. Tom Brokaw's revealing two-hour NBC-TV documentary in December showed classrooms of uniformed six-year-olds in a steam-locomotive factory town singing songs in praise of steam locomotives. Apparently, these children can expect nothing more than to spend their entire working lives building steam locomotives there.

The same sort of static fallacy—viewing the world as if it had always been as it is today and always will (or should) be—shows up also in debates on national defense. Last summer, Michael Klare of the Institute for Policy Studies published in the *Nation* a long attack on the idea of high-tech conventional weapons as an alternative to tactical nuclear weapons for defending NATO's European members. Klare's ultimate point was that developing such weapons would be a waste of time and money, because "the Russians would certainly respond by deploying similar arms, thereby further endangering NATO's defenses...."

A similar objection is raised by those opposing development of antiballistic missiles and other forms of defense against nuclear attack. Advocates of strategic stability tend to see the world in frozen terms of ICBMs and SLBMs and don't want anything to upset their neat, tidy models. Deployment of space-based defenses, they argue, would only force the Soviets to respond in kind, thereby setting off another costly round in the arms race.

What this static view ignores is the reality of technological breakthroughs. Breakthroughs can and do occur in defense technology, just as they occur in civilian life. And a genuine breakthrough may take a great many years and untold billions for the Soviets to "duplicate"—if they can do so at all. This point is especially relevant in comparing the burden that defense spending imposes on the US and Soviet economies. While defense spending consumes about 6 percent of US GNP, it devours nearly *16 percent* of Soviet GNP. And even with that, the Soviets are just now approaching what many defense analysts consider rough parity with US forces. To blithely assume that the Soviets could *afford* to match a major US breakthrough is totally unwarranted.

In the long run, a centralized, socialist state is almost certain to fail in a contest with a capitalist, free-market society. A dynamic, free economy will out-innovate and out-produce a static, nationalized "means of production." Capitalism will win because reality is on its side—the reality of change and innovation and progress. Against a society based on this dynamic process, no static system can hope to prevail.

Robert W. Poole, Jr.

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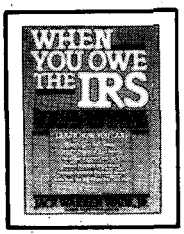

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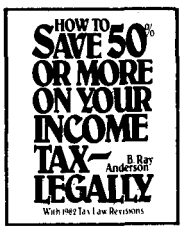

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Letters

Nonzoning Made Simple

Congratulations on "They Built Their Own Highway..." by Thomas Hazlett (Nov.). His defense of nonzoning in Houston is good economics and good ethics. And how that man can write! I've never seen the economics of externalities, public goods, and free riders explained with such ease and with such beautiful irreverence. Hazlett leaves only one question unanswered: How did he survive graduate school?

David R. Henderson
Senior Staff Economist,
Council of Economic Advisers
Washington, DC

Traffic and Zoning

Thomas Hazlett's article does an excellent job of covering most of the major issues in the zoning/no-zoning debate. However, Hazlett seems to conclude that Houston's traffic congestion is just the price that must be paid for an unzoned city. In reality, the cause of Houston's traffic congestion is the city's failure to price the use of a scarce resource—the roads during the rush hour.

Of course more intense use of land puts a heavier demand on the arterials, but a heavy demand will not result in overuse if the price reflects the demand. Just as there is never "enough" free parking downtown, there will never be "enough" street capacity in densely developed cities during rush hours unless a fee for use is imposed. (Most REASON readers are probably familiar with Hong Kong's experiment in road pricing.)

With a road-pricing system that keeps traffic flowing, builders would have to consider the cost of access to their developments as affecting the value of their developments. As areas became more built up,...builders would probably find it advantageous to provide bus or rail service to their developments.

Coupled with realistic pricing of parking spaces on all streets, road pricing and no zoning would result in a congestion-free city that used its land to the greatest benefit. Although private ownership of all streets might result in their most efficient use, there is no reason why the present owner, which happens to be the city of Houston, cannot at least attempt to price the use of its paved real estate to reflect its value.

Paul D. Gruen
Department of Regional Planning,
Los Angeles County, California

Besting the Soviet Bear

Jack Wheeler's article "How to Dismantle the Soviet Empire" (Nov.) has got to be the most common-sense approach to stopping the Russians' expansionist plans that has come along in a long time. He and you should be congratulated on its publication.

W. Elmer Seaman, Jr.
Barnegat, NJ

Good REASONs

REASON gets better and better. I particularly enjoyed "How to Dismantle the Soviet Empire."

Gerald Salchert
Heilsbronn, West Germany

Required Reading

"How to Dismantle the Soviet Empire" should be read by every member of Congress *and* the president.

Mona C. Jacob
South Windham, ME

Uncle Sam, Where Are You?

Jack Wheeler's article was much appreciated. It is the first of its kind that I have seen, one centered on proaction versus reaction. It seems as if the United States has always operated with a "band-aid" strategy, one that entails following the USSR around attempting to clean up what they dirty. Our recent presence in Grenada is indicative.

If indeed Mr. Wheeler's suggestions were implemented, and the consequences were as expected, the implications would be a landmark in human history. To think of all our energies over the decades that have been directed toward peace and coexistence with this superpower! How would we focus that same energy in other directions (what to do without a fencing partner)?

One question does sit uneasy: Mr. Wheeler's several-point plan appears so obvious, why has our government not taken this approach?

M. Scott Hunziker
Pompano Beach, FL

. . . At Diplomatic Receptions

Jack Wheeler's article on dismantling the Soviet Empire illustrates a powerful approach that, regrettably, the people who manage our foreign policy basically reject, if indeed they even recognize it as an alternative. While executive secretary of the Cabinet Council on Food and Agriculture at the White House in 1981, I personally generated an initiative aimed at subtly strengthening the private-property agricultural sector in Poland. How this initiative was defeated within the bureaucracy, despite President Reagan's personal support, is a long, occasionally comical, but ultimately tragic story.

The point it made, however, is that our government has practically no capacity to relate to *people*, here or abroad. In domestic matters, people are beneficiaries or cases or eligibles, who qualify for subsidies and live in units. In foreign policy, it is not too much of an exaggeration to say that for the US government, there is no such thing as people—there are only other governments. We are a government, and we deal with, counter, parry, thwart, threaten, support, or bully *other governments*. And thus, to take a truly horrible case, the Reagan administration votes to seat Pol Pot's murderous Kampuchea regime in the United Nations, because *somebody* has to be the government *everywhere*, and we didn't like North Vietnam's puppet alternative.

I am firmly of the opinion that this government, under whatever president, cannot generate a pro-people foreign policy that penetrates the veil of national governments. This is called "interfering in internal affairs" and makes for undesirable chilliness at diplomatic receptions. It will have to be done through private bodies, although tax

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Her husband had passed away without leaving a will and with virtually no life insurance. What he did leave was a mountain of unpaid bills, a huge mortgage payment, car payment, and a flock of loans to pay back from a small business that failed.

For awhile it looked like her only option was to sell the house and car and declare bankruptcy. Fortunately, she didn't have to do any of that. Instead she contacted us and we did the rest.

Very simply, what we did for her as well as thousands of others is to put together valuable information, detailing principles that can and will make you money—big money. You'll learn that it's not how much time you put into something, but how you use the time. Most millionaires work far less than the average person, yet they get a lot more out of the time they put into it.

One thing we want to emphasize—this will not be material put together by a bunch of amateurs or worse yet, 'bookworms' who know what should work, but have never done it. Instead it's put together by a staff that has started with nothing and have ended up as millionaires.

They'll be giving you the type of tips and insight into things that only experience can give. They'll tell you step-by-step how they regularly made hundreds of thousands of dollars.

I imagine by now you're worried that a program like this will cost you a small fortune. And it would at most places. You could end up paying thousands getting the same type of advice at private consultations with financial experts or hundreds going to seminars.

Quite frankly, our team of experts could make far more money doing business in this way but they've reached the point where money is no longer a goal.

We've tried it that way and it turned out that we were only helping the rich get richer so now we're trying this technique of spreading our knowledge to the average person at a price they can afford—a mere $10. We guarantee that you'll think it's worth every penny.

In fact, we're so sure of it that we're willing to guarantee you'll be pleased or we'll give you your money back if you let us know within 30 days—no questions asked.

That gives you almost a month to leisurely sit back and look over the material. We're confident you'll find it the most valuable information you've ever seen.

If you feel it can't help you send the material back and we'll return your check or money-order—uncashed.

Still skeptical? We can't say we blame you. There are enough rip-off artists out to cheat you. That's why we invite you to postdate your check a month from when you send it to safeguard yourself.

One thing that I'm sure is bothering you is that the only people you're hearing from about the program is us. That's why we've decided it's important to share with you some of the letters we've received from satisfied customers. All the following people are real but we've given you just the initials to protect the privacy of the individuals involved.

'I got the $6,000 I needed to send my daughter to college.'

"One of my biggest goals in life has always been to be able to finance my son and daughter's education. I had enough saved up to send my son, but when my daughter's turn came up I couldn't come up with the money. I was in enough debt that no one would give me a loan and things looked hopeless until I came across your ad. Like most people, I figured as long as you guaranteed satisfaction, I had nothing to lose. Instead, I gained plenty. Within a few months I made enough to not only fund the $6,000 I needed for her college, but also was able to pay off my car, house, and get back on me feet. Thanks.

J.W.
Atlanta, GA

'I made a fortune on the stock market with the money I made from your program.'

"I've always been a person who loves the excitement of the stock market. To me there's nothing like the feeling of taking a risk. Recently, I got a tip of a surefire stock that would make me big money. Unfortunately, I didn't have any money to invest—that is until I sent away for your material. In the first week I made $4,000 and invested it all in the stock. Since then I've made an unbelievable financial killing on it and with the money I'm making due to your program, I've got all the cash I need to keep playing the odds. Thanks.

P.M.
New York, NY

We also thought you'd be interested in comments made by some of the national publications that have looked carefully at our program.

THE SCENE

"When we first saw this ad in print, we sent reporters out with the express purpose of doing a 60-Minutes type expose on how it's cheating the public. Instead, to our amazement, we found it's a program that actually does what it promises to—it helps people make money. Several people on our staff have tried it and all have profited from it. If more people took the time to learn what they're teaching, there would be far less poverty in the world today."

UNIQUE PUBLICATIONS

"We have to admit we were skeptical when we looked at this program, but to our surprise we found it to be a concise and easy to understand program on how to make money. We've investigated more than our share of rip-off schemes, and we can assure you this is not one of them. We've seen amazing results and if the financial experts involved in the program keep on offering this kind of advice in the future, we would expect to see even more people profit from it."

We could continue on with both letters from people who have found success and publications who have found that it works, but we think we've made our point.

If you're interested in turning your financial life around, we invite you to fill in the coupon below and send us a check or money order. That's all it takes. Really you've got nothing to lose and everything to gain.

The only thing we would say is that you should act quickly. To be honest, nothing lasts forever and there's no telling how much longer we'll be able to offer the program at such a low price.

By acting now, you can assure yourself of getting the best possible deal.

I'm willing to risk the time and postage necessary to get your information. I have enclosed $10 in check or money order. Please send me your package as soon as possible. I understand that I have 30 days to examine it and make my decision of whether I'm interested within that time frame.

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LETTERS

dollars could possibly be used to support the activity, as USAID supports Appropriate Technologies International, or as the CIA supports various enterprises abroad. An alternative I am now willing to consider would be to contract the functions of our State Department to private enterprise, although I shudder to think who might be choosing among the various bids.

John McClaughry
Concord, VT

Clever Soviets

Jack Wheeler's article is a valuable contribution to understanding the evils of socialist systems and the weakness of the social as well as the economic foundations of the Soviet Union. While providing a long-needed reminder of the multinational character of the Soviet states, it is possible that he understated the problem. The excellent map that accompanied the article was a political map indicating the different soviet republics, but the largest republic geographically, the Russian Soviet Federated Socialist Republic, stretching from the Baltic to the Bering Sea and the Pacific Ocean, itself is a multinational republic with most of its territory east of the Ural Mountains composed of Asian peoples. . . .

The multinational character of the Soviet empire has become much more significant in recent years. In the past, groups were European, or Christian. But today the great population growth in the Soviet Union is among the non-European populations, mostly Turkic and Mongol, who are Islamic. These Central Asian peoples not only are heirs to historic centers of civilization in the Islamic world, but they are living in the Russian sun belt, where better climate makes for agricultural growth and preferred living locations. The Soviets were very clever in winning control of Central Asia against Enver Pasha and the Pan-Turkish movement. (Enver Pasha, half-Turkish, half-Albanian, led the Young Turk movement of 1908 to modernize Turkey. As leader of the Union Liberale, Enver purged the army of old officers and as minister of war in World War I organized the Turkish campaigns against Russia and the Commonwealth invasion at Gallipoli. After the war he served with the anti-Bolsheviks in Central Asia, where he was killed by the Soviets in 1922.)

The Soviets recognized the growing importance of the Russian Moslems, and the shift from a pro-Israel to a pro-Palestinian policy over 30 years ago was due to a Soviet desire not to give grounds for anti-Soviet feeling among the Moslem populations of Central Asia. Any programs to emphasize the strategies that Jack Wheeler suggests will require a re-evaluation of American attitudes toward Islam. As has been the case since 1917, the Soviets have been successful because they have been willing to invest time and energy in understanding the ideas and events that dominate in various parts of the world, while American politicians and opinion makers will not bother to do so.

Leonard Liggio
Institute for Humane Studies
Menlo Park, CA

Abetting Without Aiding

Relevant to Jack Wheeler's provocative piece on how the Soviet Union might be brought to its knees, Jeane Kirkpatrick, US ambassador to the UN, made some comments in an interview in the November *Encounter*:

I am certainly not the kind of moral purist who believes that we should play dead when confronted with aggressive dictatorships. Nor am I a pacifist. I believe that democracies have not only the right but the obligation to defend themselves—to defend freedom of speech, freedom of the press, freedom of assembly—and I don't believe it is necessary for us to wait until we are nearly dead to respond to force with force. . . .

But I do think that we haven't the right vis-a-vis *other people, people who live under totalitarian regimes or are occupied by a totalitarian power, to encourage them to active resistance if we are ourselves unwilling actively to support them in that resistance. We have . . . the moral obligation to support them if they choose to resist . . . but we haven't the moral right to urge them to assume terrible, life-and-death risks from which we are not prepared to deliver them.*

Ambassador Kirkpatrick has, I think, a point that Mr. Wheeler should address.

Tibor R. Machan
Senior Editor

Mr. Wheeler replies: Mr. Liggio is quite correct in pointing out the necessity of a change in American attitudes toward Islam. For those interested further in this subject, I highly recommend Alexandre Bennigsen and Marie Broxup's *The Islamic Threat to the Soviet State*, just published by St. Martin's Press, and *The Journal of the Society for Central Asian Studies*, edited by Enders Wimbush at Oxford. The July 1983 issue contains the papers delivered at the society's recent conference, "The Russian and Soviet Experience with Muslim Guerrilla Warfare."

Jeane Kirkpatrick's point is well taken. The trick is to provide anti-Soviet resistance movements with the appropriate level and type of support. That is why I advocate that Redeye anti-aircraft missiles be given to the Afghan Mujaheddin and training in sophisticated subversion techniques be provided for Soviet ethnic dissidents—not the other way around. What more does Dr. Machan want?

As for Mr. Beilenson's letter in the January issue, I suggest that giving the Soviets the sheer hard-ball choice of disarmament or dismemberment antiquates problems of "treaty traps." And remember, if the Soviet Union disarms, the Soviet Union dissolves. Forcing the Kremlin to disarm is one of the surest paths to achieving more freedom for the peoples under its sway.

New Technologies, Old Debates

I was flabbergasted to read in Craig Smith's December review of Ithiel de Sola Pool's book *Technologies of Freedom* that "the Founding Fathers considered freedom of expression so important to political liberty that they refused to pass any laws abridging freedom of the press." On the contrary, under the administration of Founding Father John Adams, the ruling Federalists (forerunners of Franklin D. Roosevelt's neo-fascist New Deal Democrats) in 1798 passed the Sedition Act. This law made it a crime to speak or write against the president or Congress "with intent to defame" or to bring them "into contempt or disrepute"—sins so vague that any criticism of the government could be judged criminal by the government.

The Federalists used this law in partisan war against the rival Jeffersonian party. Twenty-five men, including one member of Congress and 10 Jeffersonian editors and journalists, were arrested for such "sedition" and 10 were convicted and, as historian Samuel Eliot Morison writes in *The Oxford History of the American People*, "were silenced by heavy fines or jail sentences."

LETTERS

But as Morison comments, "The American Revolution was too near in 1798 for an American government to punish opinion with impunity." Thomas Jefferson prompted the states of Kentucky and Virginia to declare the Sedition Act null and void within their borders, and controversy over the law helped Jefferson win election to the Presidency in 1800, which he called "the Revolution of 1800." Jefferson celebrated victory by terminating the Sedition Act and dispatching a US warship to Europe to bring back radical pamphleteer Tom Paine.

Jefferson believed, by the way, that every free society needs a new revolution every 20 years to renew its liberties....

Lowell Ponte
Carlsbad, CA

Mr. Smith replies: The sentence that Mr. Ponte draws out of my review clearly refers to the time surrounding the adoption of the Constitution and the first 10 amendments to it, 1787-91. During that period, and given the history of British oppression of the press, it is clear that the Founders were of a mind to protect freedom of expression.

Mr. Ponte points to a period seven years later, when the Federalist party used the issue of Jacobin subversion to try to strengthen their hold on the reins of power. The Alien and Sedition Acts passed the Senate easily because it was controlled by Hamiltonians. However, the debate in the House was heated, and the acts came very close to defeat. President Adams, if one reads his correspondence, disagreed with Hamilton on the necessity of the acts.

In an upcoming book, I spend a chapter on this episode and compare the tactics of the Hamiltonians with those used by Woodrow Wilson's attorney general during World War I and by Joseph McCarthy in 1954. Even with the First Amendment in place, we must be ever vigilant to guard our freedoms. Mr. Ponte deserves credit for bringing that to our attention.

Craig Smith
Freedom of Expression Foundation
Washington, DC

Standing Citation

In the November Brickbats, Mark Crane mentions a contempt-of-court charge for not standing in court. Should any of your readers experience a similar situation, the legal precedent is *US* v. *Snider* 502 F2d 645 (1974): "Refusal to rise for a judge is not punishable." It comes under the First Amendment's freedom of speech. The purpose of standing was to show respect for the authority of the court. If you don't have respect, you can't be forced to show it.

Stormy Mon
Denver, CO

Road to Socialism?

I like the article "Forest Socialism" in the December issue; I wish I could say the same thing about "The Right Road" (Further & More) in the same issue, but I can't. The former piece makes a rational case against publicly owned timberland; the latter applauds the passage of a bond issue to build still more publicly owned roads. The fact that in this case the new highways are supposed to be toll roads does not justify them; I fail to see a substantive difference between charging for permission to drive a car on a public highway and charging for permission to cut trees in a public forest. Why not apply the same ultimate test of the market to both public roads and public forests (along with government-owned railways, nonmilitary airports, and nonnaval seaports, as well)? Put them on the auction block, and let freedom take its course.

T. M. Graf
Washington, DC

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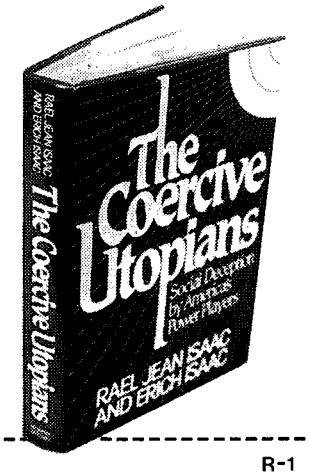

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brickbats

If you're a free-lancer, watch out for zoning laws. Chicago's managing to show the tyrannical potential of zoning. Patrick and Leah O'Connor, both teachers who moonlight as free-lance educational writers, each bought home computers. Then came the knock on the door from a city inspector who said they were violating the zoning law by conducting a commercial enterprise in a residential area. "I'm in shock over this," says O'Connor. "The ordinance seems to mean that I'm violating the law when I type my work on the computer. What's the difference between using a computer and a typewriter? Maybe they're just kidding." Sorry, no such luck. Zoning administrator Harry L. Manley says the city is serious. "Look, it's no different than someone cutting hair in his spare time. If it provides income, it's considered a business." Could pencils and paper be next? Stay tuned.

They finally got old Judge Hutzky. The New York State Commission on Judicial Conduct probably could have lived with the fact that Saratoga Town Court Justice Paul Hutzky "neglected nearly every aspect of his job" (just like a lot of other state employees?) and couldn't reconstruct what cases had come before him and how they were handled. Just some darned paperwork, anyway. What convinced the commission to remove the judge from the bench was his practice of keeping thousands of dollars in court funds stuffed in his shoes and his freezer. The judge wasn't appropriating funds; he just didn't believe in banks. And clearly, believing in shoes is no good for justice!

New York's Metropolitan Transit Authority has $7 million worth of parts stored in quantities far greater than the MTA will ever need. An audit found 285 years' worth of air-compressor clutches, 168 years' worth of rear windows, and 114 years' worth of skid chains. Another $7 million worth of parts stored in bus depots have not been requisitioned in almost three years, and many of the parts fit only buses long ago retired from the MTA fleet. Meanwhile, an average of 70 buses sit idle every day because parts needed to repair them are out of stock. The auditors recommended a new inventory system. And as it has announced each and every time there's an audit, MTA brass say they were already in the process of putting the recommendations into effect when the report came out. Sure, and the check is in the mail.

Blood is thicker than oil, and in shorter supply. That's why Iran's blood-thirsty rulers are executing prisoners by draining their blood so it can be given to wounded soldiers, according to the International Federation for Human Rights. Other condemned prisoners have been forced to "contribute" blood before being shot, the group says. A document signed by the chief revolutionary prosecutor's office in Tehran notes that the Ayatollah Khomeini says the order is not at variance with Islamic law.

News reporters and photographers are admittedly a pretty scruffy lot when it comes to the latest clothing fashions. Remember "Animal" on the old *Lou Grant* show? But First Lady Nancy Reagan probably went too far in reminding the scribes how to dress for her recent trip to a Japanese art exhibit in Tokyo. Her press office posted the following memo at the White House press room: "Be sure to wear clean, holeless socks, as you will be required to remove your shoes before entering the exhibition hall."

Titus Tomescu, a 17-year-old Romanian immigrant who is a part-time grocery bagger at a Chicago supermarket, worked a total of 34 hours at $3.75 an hour. He received two paychecks totaling $3.09. Is it new math at work? No, just union dues. Titus's gross pay for 17 hours of work was $63.75, but his net pay was one penny. Payroll deductions included $4.41 for federal income taxes, $4.27 for Social Security, $2.23 for state income taxes and $2 for health and other insurance—plus $10.83 for union dues and $40 toward a union initiation fee. The next week, based on the same gross earnings, Titus got a check for $3.08. Union deductions were $47.50. Titus says he'll try not to spend all his paycheck in one place.

The Army spent $20,000 to prepare 30,000 multicolored pamphlets explaining how to engage in the old playground game King of the Hill. The pamphlet contains a preface and four pages of detailed rules. The purpose of the pamphlet is to "incorporate leadership, strategy-planning and decision-making skills into the physical fitness training program," says the Army. Sen. William Proxmire points out that children have been able to learn the rules of the game for decades without military assistance. He also questions whether Yuri Andropov will lose any sleep because American GIs are developing proficiency in the game.

—MARK EDWARD CRANE

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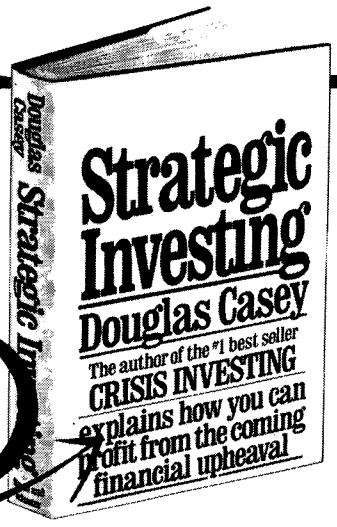
The Greater Depression of the 80s
is already here, says Douglas Casey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- What becomes of welfare and Social Security in a real depression?
- "Investing for income is the kiss of financial death." Why this is especially true today.
- 7 approaches to buying stock: each one can be successful, but not always. How to use each one — or *all* of them at different times or for different stock groups.
- Convertible bonds: due for a revival? The best method for buying them.
- Are stocks now overpriced or underpriced? (Casey thinks they're *both*, and shows why.)
- Vivid example (better than many a course in economics) of exactly how the government stimulates — and distorts — the economy, and feeds inflation.
- 7 major criteria for evaluating a stock.
- The true growth "industry" of the 1980s.
- Institutional favorites: a clue for your own buying — but not the clue most investors follow.
- The menace lurking in the bankruptcy laws.
- Is the present easing of inflation real? Lasting? A sobering view.
- 5 signals to watch for before you enter, or sell out, in *any* market.
- Recommended money market funds: names/addresses/phones, key facts.
- The surest long-term speculation of the 80s — for these *9* reasons. (If you buy Casey's analysis — and we think it makes a lot of sense — then this one idea could literally make you rich.)

If Douglas Casey has one point to make above all others, it's this:

The Greater Depression of the 80s will be — *is* — different from the Great Depression of the 30s. To survive and prosper, you must master the differences. If you do, the opportunities are there, waiting to be seized.

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TRENDS

VOTING FOR FREEDOM— AND BETTER HOUSING

In the off-year elections in November, a ballot proposal for rent control in Los Angeles County's unincorporated areas suffered a resounding defeat—the final unofficial tally was 41,058 yes votes to 63,549 no votes. What is more broadly interesting about the local event is that rent control lost as badly in lower-income Latino and black areas as in the more-affluent, mostly white conservative areas.

The *Los Angeles Times* reported that Proposition M, which would have restricted rent increases for apartments, mobile-home lots, and other rental properties, was expected to fare badly in white, homeowner-dominated areas; and it did. But many analysts were surprised by the strong anticontrol vote in heavily Latino and predominantly black parts of the county, where there is a high concentration of renters.

The No on M campaign attributed its victory in these areas to a series of advertisements mailed to voters. These ads pointed out that rent control would hamper housing starts, cause neighborhood deterioration, and undermine property values.

Another important element in the campaign's success, however, was small black landlords arguing the case against rent control with their own tenants. Ron Wright, the campaign coordinator for No on M, said that many black landlords like him own a small five- or six-unit building. "These landlords made our case the best," he noted. "They'd go out and say, 'Don't pass this, it will kill me!' "

No on M strategist George Young told the *Times* that part of the anticontrol campaign originated with Latino voters, as well. Proposition M contained a standard rent-control provision allowing landlords to evict tenants to recover a rental property for the use of their own families, with *family* defined as parents, children, and siblings. And Latinos, Young noted, "objected to the government defining who was in the family. They believe that aunts, uncles, and grandmothers are just as important as husbands and wives and daughters and sons."

It's not often that the personal-liberty effects of ostensible economic regulation are so evident. This time they were, and freedom's constituency grew.

MORE COMPETITION FOR CABLE

Is cable TV a "natural monopoly," the kind of service best suited to provision by a single firm in a given area, regulated by a government commission? Nearly 40 percent of the households in the United States have been wired for cable TV provided on this model, but growth in competing industries is making it clear that cable is but one of many video and telecommunications services whose proper role will evolve via competition.

Recently the Federal Communications Commission struck two more blows for the competitive model. In a 3-to-0 ruling it invalidated the state of New Jersey's attempt to regulate companies providing Satellite Master Antenna TV (SMATV) services, which use single satellite dishes to serve large apartment complexes, all on private property (whenever cable TV's cables have to cross publicly owned property, government claims a right to regulate on that basis; see "The Viewer Is the Loser," REASON, July 1982). The decision freed Earth Satellite Communications to proceed with wiring a 257-unit building in East Orange. But it also opens the door for expansion of SMATV nationwide, including such large systems as that proposed for the 15,000-unit Co-op City in the Bronx. Predictably, the New York state cable-TV commission plans to appeal the decision.

The other case involved the Nevada Public Service Commission's attempt to regulate the pricing of so-called tiered programming offered by the cable firm in Las Vegas. (The term refers to optional services beyond basic cable offered for a separate monthly fee.) The FCC ruled that rates for tiered programming are exempt from state or local regulation.

Action now shifts to the House of Representatives, where a bill to partially deregulate cable is pending. Last summer the Senate passed a companion bill, with support from both the cable in-

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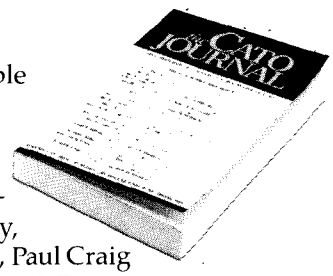

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dustry and the National League of Cities. In a historic compromise, it gives cities explicit authority to grant cable franchises, to require local-access channels, and to regulate rates for *basic* services. But it also (1) limits to five percent of gross revenues the amount cities can assess as an annual franchise fee, (2) provides a presumption in favor of franchise renewal, (3) prohibits regulation of rates or content of any services *other* than basic cable (and even that may not be regulated in cities where four over-the-air channels are available), (4) prohibits regulation of telecommunications services provided by cable companies (except basic voice telephone service), and (5) prohibits common-carrier (utilities-style) regulation of any cable system.

But as of this winter, the compromise was coming undone, with the League of Cities turning against the bill at its New Orleans convention in December, under strong pressure from self-styled consumer and community activist groups. The National Cable Television Associaton, meanwhile, is pushing hard for the bill, arguing that the alternative would be total deregulation imposed by the competition-minded FCC. Which process would more rapidly free up cable/video/telecommunications is an open question. But the freeing up is well under way.

DEREGULATION REPORTAGE

It's always gratifying when the idea of deregulating the economy wins new converts. Recently, deregulation gained an especially large boost from a pillar of the American establishment—*Business Week*.

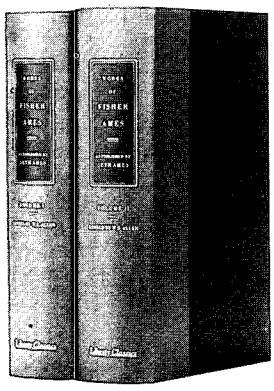
The widely respected magazine has not been a consistent devotee of free-market principles in the past (for example, it has shown an unseemly enthusiasm for a government "industrial policy"). But deregulation's track record evidently proved to be irresistible.

The cover of *Business Week*'s November 28 issue proclaimed, "American business is undergoing its first redirection in 50 years. The move to deregulate, which started out slowly just a decade ago, is now showing dramatic results. Deregulation is not only revitalizing three basic U.S. industries—finance, telecommunications, and transportation—but it is boosting the nation's economy as well."

The lead article inside, "Deregulating America," pointed out that those industries account for a "$250 billion chunk of the American economy." Some of the impressive results of deregulation acknowledged by *Business Week*:

- Long-distance air fares, adjusted for inflation, have declined by nearly 50 percent in seven years.
- Many trucking rates have plummeted by 30 percent in real terms since 1980.
- The 1983 costs of standard telephones fell by one-third in the space of a year.
- With the availability of discount brokers, the cost for small investors of buying stock is 60 percent below the commissions charged by old-style brokers.

Business Week is aware that deregulation is not universally painless, though. And that's because regulation inevitably fostered systems of forced subsidy that are now either reduced or nonexistent. With telephone service, for example, businesses subsidized residential users, long-distance calls subsidized local ones, and urban users subsidized rural users. As Alfred Kahn, a Cornell University economist and deregulation point-man in



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the Carter administration, sardonically observed, "The Bell System was a welfare state with the power to tax and use the proceeds to do good things."

Some riders on the old gravy train haven't done well. More than 300 trucking companies have gone bankrupt, and a few airlines—most notably Braniff—have bit the dust. In addition, there has been what Marvin Kosters of the American Enterprise Institute calls "disinflation in the labor market," with airline and trucking unions (among others) accepting wage cuts and more-flexible work rules.

But the magazine argued that on the whole, ending this sort of subsidy has been for the better. "Income is being channeled from those who benefited from noncompetitive markets—consumers who purchased subsidized goods and services, workers who enjoyed inflated salaries and wages, and producers who basked in a protective environment—to the general public," it said.

Still, the deregulation process is vulnerable, according to *Business Week*, although for political rather than economic reasons. Many of regulation's beneficiaries have huge political clout, and they have battled ferociously against reform.

At least one such interest group, the Teamsters Union, seems to be influencing Reagan administration policy. The White House is reportedly "reviewing" the Transportation Department's Phase II trucking deregulation bill with an eye to winning Teamster support in the November elections.

The political future of deregulation may be problematic, but its economic consequences are clear. "On these economic grounds," says *Business Week*, "deregulation wins hands down." They're right, and it's a welcome endorsement.

CAR QUOTAS' CURIOUS CONSEQUENCES

During the last three years, Japanese auto manufacturers have "voluntarily" limited their collective exports to the United States to 1.68 million annually. These quotas, urged on the Japanese by the Reagan administration (which, in turn, was heavily pressured by the US auto industry), were to have given American car makers a breather in competing with the Japanese so that US

manufacturers could adapt to the new small-car market.

But more and more people are coming to recognize the quotas' ironic effect: by restricting the supply of the highly sought-after Japanese imports, quotas have raised the imports' price in the American marketplace. And that in part explains why, for example, a top-of-the-line Honda that goes for $7,500 in Japan can get $11,000 in the American market. As David Healy of the investment firm Drexel Burnham Lambert told *Business Week*, "Quotas screw the consumer. It's as simple as that."

Business Week reported that Japanese auto makers have filled their exported cars with options and have priced them "at least as high as comparable U.S.-built models." With their market shares held constant by the quotas, the Japanese makers have no incentive to cut prices. *Business Week* quoted researcher Hitoshi Hisano, of the Industrial Bank of Japan, on the quotas' perverse effects: "If there were no restraints, there would be sharp competition between the Japanese companies, and they would be forced to lower profit margins."

Despite their current high US profits, the Japanese have agreed to only one more year of car quotas (at the higher limit of 1.85 million), for they are eager to expand their share of the US market. Though Detroit is not likely to realize it, such increased competition may be the US auto industry's only real incentive to revitalize itself.

THE VIRTUES OF THE MARKET

Leftists, who are not enamored of capitalism anyway, have long been urging "socially conscious" investing. Being leftists, they have often agitated (sometimes successfully) for laws prohibiting government employees' pension funds from investing in verboten firms and industries. Meanwhile, however, the free market has been doing what it does so well—meeting people's perceived needs, in this case for putting their money where their politics are. Thus there has emerged a growing set of mutual funds, money-market funds, portfolio managers, and investment newsletters aimed at people who want to "do good while doing well."

The Calvert Group, for example, started two "ethical investments" in late 1982—a mutual fund and a money-market fund. They will invest only in companies that "manufacture safe products in a safe workplace with a process that does not harm the environment, treat workers fairly, and provide equal opportunities for women and minorities," according to a recent Associated Press report. Firms "primarily engaged" in the nuclear energy industry, business activities in South Africa, weapons manufacture, or alcohol or tobacco manufacturing are out.

The idea of social investing is amenable to all kinds of criteria. Indeed, the *Los Angeles Times* reports that one of the earliest examples was a mutual fund formed in 1962 for Christian Scientists called Foursquare. Before it merged last year with a conventional mutual fund, it had a policy of not investing in alcohol, tobacco, or drug companies.

Two of the earliest funds with specifically political aims were the PAX World Fund, formed by pacifist Methodist clergy 14 years ago, and Dreyfus's Third Century Fund, now a $140-million growth fund. In the last few years, the opportunities for social investing have burgeoned. The New Alternatives Fund was set up in 1982 for investing in solar and alternative energy sources. The Calvert Group's two funds also appeared in 1982; its advisory board includes Amory Lovins of "soft energy" fame, Robert Rodale of the back-to-nature Rodale Press, and civil-rights leader Julian Bond. In September 1983, the Working Assets Fund started offering money-market investments in businesses deemed to be creating jobs for American workers. And there are now at least three newsletters and, according to the *Los Angeles Times*, "dozens of security brokers—and even banks" getting into social investing.

Lipper Analytical Services, a research firm that tracks mutual funds' performance, rated three social investment funds in the lower one-third of mutual-fund performers in 1982. But John Reid, a partner in a New York investment firm that handles "ethical investments" for religious groups, notes that many church accounts have, over the years, performed as well as other portfolios. "A good investment adviser can work in a limited field without sacrificing performance," he told the *Times*. And Jack Corbett of

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So far, virtually all social investing has had a liberal orientation. There may well be lucrative untapped markets for social investment by conservatives, libertarians, theocrats, and vegetarians. In any event, social investing already confirms that the free market not only provides opportunities for profit but accommodates the social philosophies of a wide variety of people—even those who are skeptical of free markets.

JUMPING OFF THE MASS-TRANSIT ROUTE

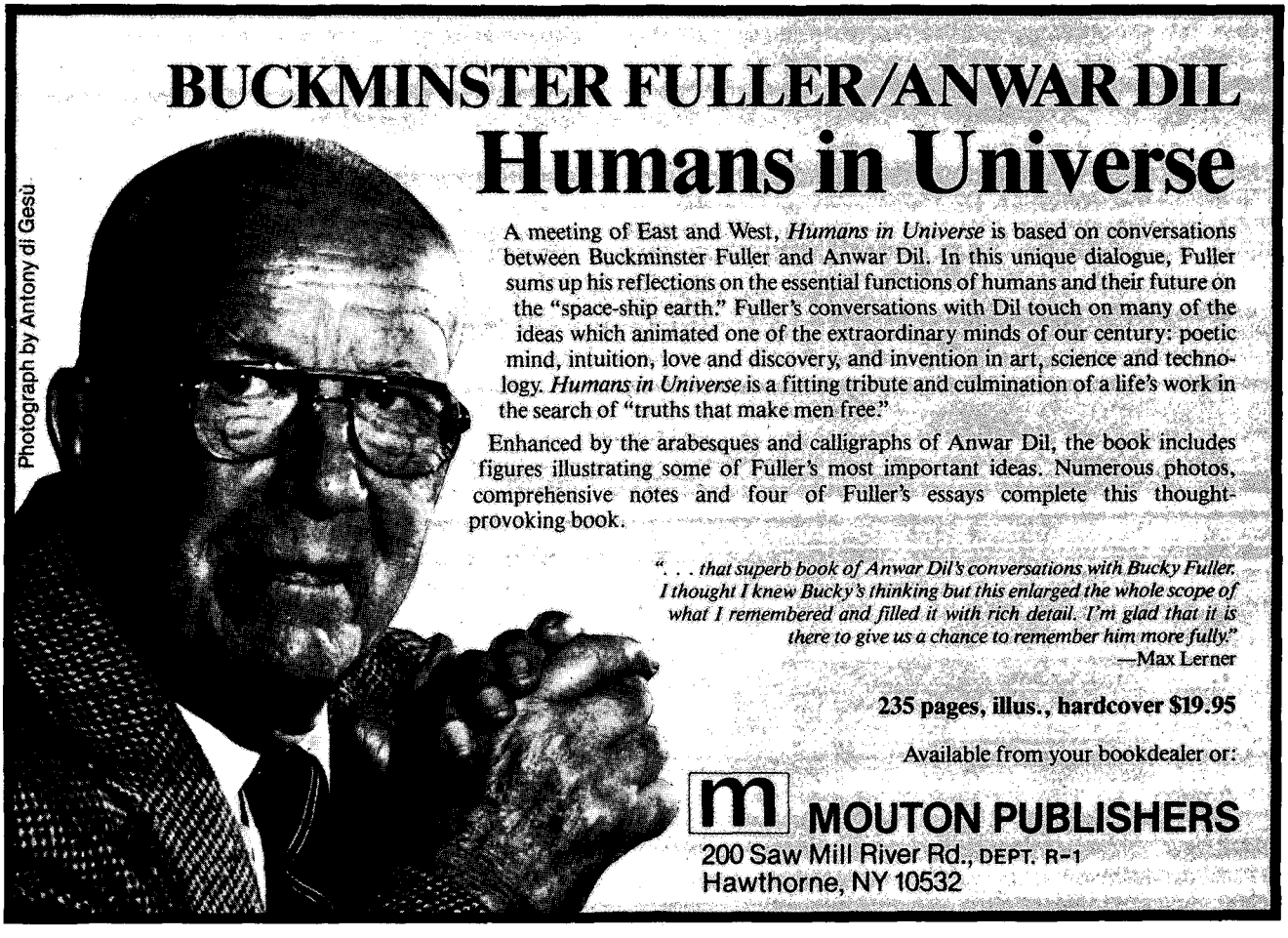
Like many cities throughout the United States, Wichita, Kansas, has a mass-transit problem: ridership on the city's bus system is continuously declining while operating costs are rising, creating ever-higher deficits. But rather than seek a boondoggle panacea—such as constructing an expensive rail system to try to lure more people to use mass transit—Wichita's commissioners instead are looking into ways to reduce the city's role as a mass-transit provider.

More specifically, the commissioners have directed city staff to study several recommendations included in a recent report on Wichita's transit situation—a report that was privately funded (by the Claude R. Lambert Foundation) and that was jointly conducted by the Sabre Foundation and the Corporation for Urban Mobility, both based in Washington, D.C.

The report's authors point out that urban mass-transit systems are increasingly inappropriate and ineffective in the present era, in which more and more people live and work in the suburbs. Though in their report the authors discuss policy options as far-reaching as the total privatization of public transit, Wichita's commissioners chose to further consider some of the less-radical proposals, including: replacing some city buses with private dial-a-ride services; encouraging carpools, vanpools, and neighborhood bus clubs; and deregulating taxis, allowing them to set their own fares and to establish fixed routes for shared-ride service (jitneys).

The Wichita commissioners' choice of action is in a direction radically opposite that of most city officials, particularly those in larger cities. Aided and abetted by federal pork-barrel largesse, Baltimore, Buffalo, Dallas, Los Angeles, Miami, Portland, and Sacramento are likely to have new rail mass-transit systems soon, and talk of such systems is running high in Denver, Minneapolis, Orlando, and St. Louis. Houston voters nixed a rail system for that city last June, but theirs was a singular choice (see Trends, Sept.). But as writer Michael Berryhill pointed out in the December issue of *Harper's*, "The only prediction that has consistently come true for rail systems is that they will cost more to build and operate and will carry fewer passengers than their planners intended."

And economist Peter Gordon, of the University of California, in discussing Los Angeles County's forthcoming $3.5-billion subway (as estimated by its promoters), portrayed even more dramatically the absurdity of mass-transit projects in a recent Cato Institute Policy Report: "If just a few people could be in-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duced not to drive alone, so as to raise [L.A. County's] average vehicle occupancy rate just to the national average, more than a million trips could be taken off the county's roads each day! Mass public transit cannot offer anywhere near that result."

If Wichita's commissioners proceed in earnest to implement some of the transit recommendations now under consideration, they just may be pleasantly surprised by the results. And city officials everywhere might have a new model to follow, one that steers clear of the build-a-shiny-new-system rail bogey.

COMPETING WITH BUREAUCRATS

The world's largest publisher—the US government—has found a way to cut costs: the Office of Management and Budget (OMB) is closing 120 federal printing and duplicating plants this year and turning the work over to private contractors, for a projected annual savings of $30 million. And the National Oceanic and Atmospheric Administration is posting a more modest yearly savings of $1.8 million by hiring a private firm to store and distribute NOAA nautical and aeronautical charts.

Ever since the Eisenhower administration, federal agencies have been directed to use private contractors to supply goods and services. This directive is codified in Circular A-76, which instructs agencies to base procurement decisions on comparisons of in-house versus contracted-out costs. Even so, according to *Nation's Business*, there remain 11,000 government functions, now performed by a half million federal employees, that could be contracted out to private business at great savings to taxpayers.

A major obstacle to more federal contracting out is government bureaucrats' unwillingness to reduce their own ranks by hiring private-sector parties to do congressionally mandated work. Federal bureaucrats often get around the contracting-out directive, for example, by underestimating the cost of an agency's in-house performance of a certain job. (Federal employees' benefits packages, for instance, are "grossly underestimated" by OMB cost-comparison formulas, according to George Daoust, executive director of the National Council of Technical Services Industries.) Such fudging of cost calculations, however, has come under legal challenge.

The Joint Maritime Congress (JMC), a trade organization of more than 100 US flag carriers, is suing the US Navy for allegedly having rigged bids for a labor contract on three Navy tankers. The Navy had initially refused to consider contracting out the jobs, eventually agreed to accept bids from private firms, and then claimed to be the low bidder.

The JMC claims that had the Navy calculated its costs accurately, it would have exceeded the industry's lowest bidder by at least $5 million. If the JMC suit makes it to trial, it will have set a major precedent for the private sector's right to contest a federal agency's cost calculations—and *that* could be a big step toward reduced government.

NEW THEORY OF COMPETITION WINS THE CONTEST

Much of antitrust law and much government economic regulation is based on the idea that if there are only a few firms (or one firm) in a given market, consumers will be harmed by monopolistic pricing. The ideal is said to be "perfect competition," with large numbers of sellers, each having only a small share of the market.

Over the past decade or so, a number of economists have challenged this view, with studies showing that quite a few fields seem to get along just fine with a small number of suppliers—without consumers being exploited. The new model is one of *contestability*. If outside firms can readily enter a market, there will still be competitive pressures on the firms already in it to keep their prices competitive. And a "perfectly contestable" industry is one in which the capital equipment is mobile and reusable elsewhere if some of the firms decide to drop out.

Prof. David Starkie of the University of Adelaide (Australia) is an advocate of the contestability idea. And he has reported an interesting confirmation of this approach in Australia's airline industry. In 1979 Australia's federal government substantially relaxed its airline regulation, which had an effect in the states of South Australia and Victoria (the other states continued state-level regulation of airline service). In South Australia, for example, the number of airlines increased from 7 to 12 and the number of flights per week from 434 to 522. Many of the new routes are served by a single airline. Yet Prof. Starkie's

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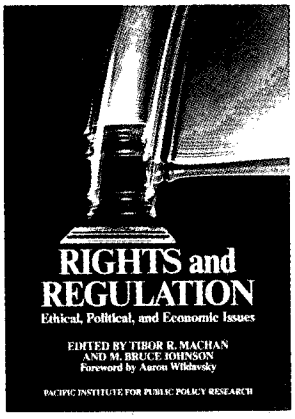
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statistical analysis found no significant difference in the fare structure between single-airline and multi-airline routes. Thus, open entry under deregulation seems to have produced a form of efficient competition consistent with the theory of contestability.

Starkie has also documented the successful deregulation of surface transportation in Western Australia. Opening up the trucking and railroad markets to substantially free competition (in 1982) has led to an estimated first-year savings to shippers of A$11 million. And government-owned Westrail (the principal railroad) expects cost savings of A$7 million a year from not having to provide service where truckers can do it more economically. Thus, many of the same lessons that Americans have learned about transportation deregulation are being learned also in Australia.

KEEPING ON COURSE—PUBLIC OR PRIVATE?

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NOTES FROM THE UNDERGROUND

BRAZIL—Even though this nation of 120 million is burdened with high unemployment rates, serious injustices, and official corruption all across the board, things are relatively peaceful here. That is partly because a good number of people who are officially listed as unemployed are not really without an occupation. They are busily working in the *economia invisível*, the underground economy.

A recent cover article in *Veja*, Brazil's top weekly news magazine, reported that "the 'invisible economy' employs 12 million Brazilians, putting into motion billions of dollars a year. And it does not shell out one cent in taxes."

In fact, producing accurate statistics on the underground economy is impossible, but João Geraldo Piquet Carneiro, of the President's Task Force for the Elimination of Bureaucracy, puts the figure at 40 percent of the labor force. It seems exaggerated, but no official estimate is lower than 20 percent. Said *Veja*, "More and more Brazilians, hounded by unemployment and the high cost of living and tired of bureaucratic roadblocks to market entry, are seeking out activities that are officially illegal but help family income to increase, capital to accumulate, and people to survive."

In the state of Rio de Janeiro, the official estimate is that a half-million people work in the underground economy, accounting for 6 percent of the state's gross internal product. In the city of Rio alone, more than 70,000 persons have set up display tables, kiosks, tents, etc., on sidewalks and in streets blocked off to traffic. Their wares range from candy to jeans to leather goods, sometimes for as much as 40 percent below market prices.

How can they do it? They do not pay the heavy taxes paid by registered business owners, including a tax on industrialized goods (18 percent); a tax on handling of merchandise (16 percent); social security tax (5 percent); unemployment fund tax (1.2 percent); social goals tax (1 percent); and a host of other taxes, "ending" with the income tax on company profits. (Brazil has one of the heaviest tax burdens of any Third World country.)

This underbidding by the "black" (that is, free) market has become a threat to established stores, leading the Chamber of Commerce to demand a city hall crackdown on "clandestine" merchants. (So much for "class consciousness" among capitalists.) When city hall did little about it, many store owners retaliated by setting up their own clandestine operations. The inspectors and tax collectors either accept bribes or look the other way, concentrating their efforts on the main sectors of the economy, from which the local government draws 70 percent of its revenue.

According to *Veja*, one especially prosperous area of the invisible economy that has for years successfully dodged attempts to bring it under official scrutiny is the foreign-currency (mostly dollar) black market. In the São Paulo–Rio axis, it trades $10 million a day. Another is the marginal gold market. Total volume traded in Rio–São Paulo in 1982 was an estimated 3 tons, and business is increasing. Also, practically all professional fields are partly "invisible," from accounting to automobile maintenance to the clothing-manufacturing businesses run by an estimated 35,000 (some say 100,000) Korean "illegal" aliens in São Paulo's Chinatown.

But the prize goes to two cities where the *whole* economy is "underground." They are Santa Cruz do Capibaribe (population 25,000), in the poor northeastern state of Pernanbuco, and Ibitinga (population 30,000), in the powerful southeastern industrial state of São Paulo.

In 1960, Santa Cruz do Capibaribe, like many northeastern towns, was a doomed place. Today, many of its citizens own automobiles, one new house goes up every day, and unemployment is unknown among its craftsmen and garment workers. The reason: for many years there has been no tax, the city's only "tax" being a $2.00 license fee. There are 6,500

(Continued on p. 22)

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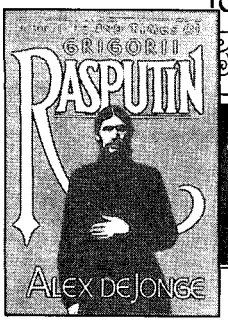

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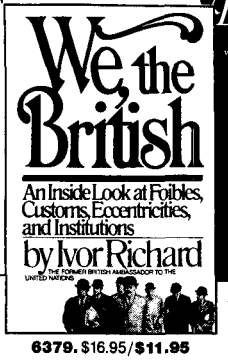

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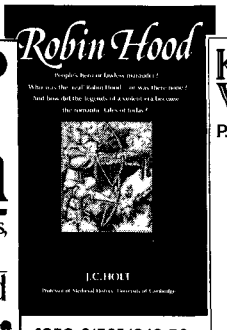

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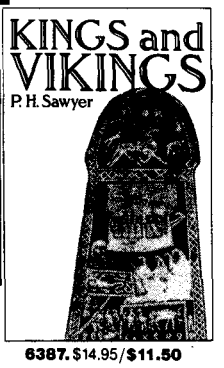

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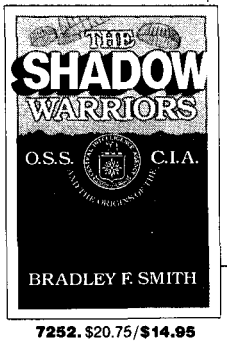

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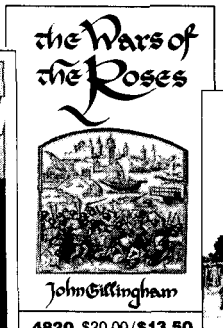

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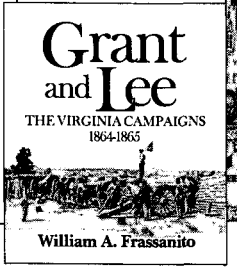

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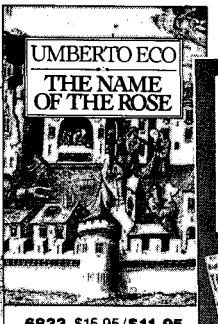

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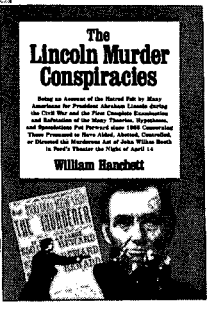

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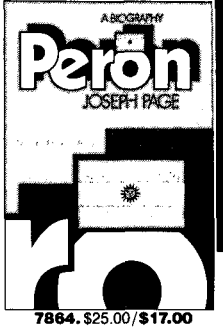

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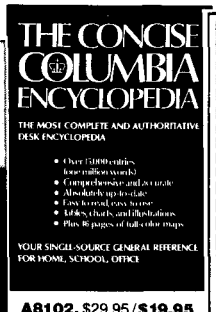

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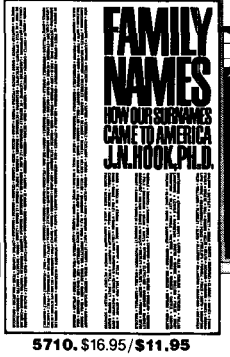

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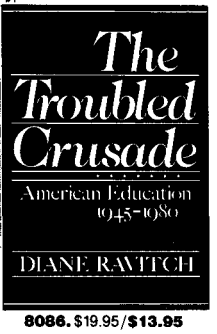

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guidance system. And that is spurring increased interest in satellite-based navigation and air traffic control systems.

The Air Force is developing one such system, called the Navstar Global Positioning System. By 1988 its 18 satellites will provide worldwide coverage for military planes and missiles, allowing them to determine their position (by triangulation) to within less than 15 meters. A 1982 congressional funding measure ordered the Air Force to share the $3-billion-plus system with civilian users, at a less-precise level of accuracy, on a user-fee basis. In response, the Air Force announced that on-board transceivers with 100-meter accuracy would be available (for $10,000 to $20,000), with an annual user fee of $370. After protests from oil exploration and ocean-mining companies about the crudeness of the accuracy, the Air Force agreed to make available special, 15-meter transceivers for a $3,700 annual fee, provided those users can provide high security for the equipment (presumably so the Soviets don't steal it).

But the shooting down of KAL 007 has Congress reversing itself on user fees. In November the House unanimously passed

GLOBAL TRENDS

(Continued from p. 20)

small family-owned businesses in Santa Cruz do Capibaribe. "I'd rather see the city coffers empty than see a craftsman in financial trouble," says Mayor Augustinho Rufino de Melo. While stores in neighboring towns have been sacked by hordes of hungry people fleeing from the interior to the cities because of the drought, Santa Cruz is calm, and more people and businesses are moving in.

In Ibitinga, economic life centers around the embroidery business. Thousands of housewives, as well as over 1,000 men, are engaged in embroidery. Ibitinga proudly calls itself the "embroidery capital of the world," but the embroidery free market has attracted other businesses into the city, from supermarkets to dentists to real-estate companies. Orville Russo, the mayor, vows that he has no interest in sending inspectors and tax collectors around. "We don't want to attract the state tax people," he says.

—JOSE ITALO STELLE

KEY TO TURKEY'S FUTURE?

TURKEY—Among the reforms proposed by Turkey's new prime minister, Turgut Ozal, is the sale of the Bosporus Bridge, which links Istanbul's two coasts. Ozal, whose Motherland Party took a 45 percent majority of parliamentary seats in Turkey's elections last November, has pledged to sell certain state enterprises to private investors, reduce government bureaucracy, encourage exports and foreign investment, and generally move the country toward a free-market economy.

Ozal, who served as deputy prime minister for two years with the military government of Gen. Kenan Evren—who came into power in 1980 and is slated to remain as president until 1989—is credited with having implemented the policies that reduced the nation's inflation rate from 120 percent to less than 30 percent. During that time, too, exports doubled and shortages were eliminated. After Ozal resigned as deputy prime minister in 1982, inflation heated back up (to about 35 percent today).

The 56-year-old economist has also proposed creditable reforms in the area of civil rights, such as freeing political prisoners who have not been convicted of terrorist acts. Turkey's military still has a strong hold on the country, but if Ozal's reforms can bring renewed prosperity, that grip may loosen considerably.

THE SUN RISES IN CANADA'S WEST

B.C., CANADA—There appear to be signs of light at the end of an economic tunnel for Canada's westernmost province. British Columbia has suffered through a severe economic slump over the last few years, but now *Business Week* reports that conservative premier William Bennett is promoting an impressive array of radical free-market reforms to help cure the province's economic ills.

B.C.'s woes were partly the result of the more general recession but also stemmed from an enormously bloated provincial government coupled with strikes in the forest-products and mining industries that sometimes nearly shut down the province's economy. Such conditions may have won for union members the highest pay in Canada, according to *Business Week*, but they also devastated the economy.

Now, Bennett announced plans to lay off 1,000 province employees. And he was successful in getting bills through the legislature that give him authority to eliminate up to 11,000 government jobs (about a quarter of the provincial payroll), freeze government workers' salaries, end rent controls, shut down British Columbia's human-rights commission, and privatize government-owned enterprises including ski slopes(!) and a bus line.

Business Week notes that one of the key architects of Bennett's program is Michael Walker, director of the free-market Fraser Institute in Vancouver. (Walker was written up in a REASON Spotlight in January 1982.) "There is no doubt that the long-term ambition of the government is to make British Columbia the Sunbelt of Canada," Walker told the magazine.

To his credit, Bennett has been honest with his constituents about his program for revitalization, even while campaigning for office. While he was running for a fourth term last spring, he said, "We're going to have restraint. You'll get less."

He won reelection, but unions in the province, along with the socialist New Democratic Party, have fought Bennett tooth and nail. The members of the British Columbia Government Employees Union walked off their jobs in November. And in the legislature, debate became so bitter last year that in one session, David Barrett, leader of the New Democratic Party delegation, was forcibly ejected and forbidden to return until the legislature reconvenes this spring.

Bennett himself says that "British Columbia is seen as a battleground for public-sector unions across the country." If he succeeds, there is speculation that conservative governments in Alberta, Saskatchewan, Nova Scotia, and Ontario might follow suit. With budget deficits that will total $8.6 billion this year for all the provinces, they would have ample provocation.

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a resolution to open up Navstar to civilian users at no charge. Sen. Charles Percy (R.-Ill.) is pushing the Senate version of the measure. Members of both houses are lambasting the Federal Aviation Administration for not even mentioning satellite-based navigation in its multi-billion-dollar master plan for future air traffic control.

But in the private sector, physicist Gerard K. O'Neill's Geostar Corporation is proceeding at full speed with its fully private, user-financed satellite navigation system designed not only for air traffic control but for guiding rail cars and trucks (see Trends, July). In November Geostar conducted a simulation demonstration of its system in South Lake Tahoe, California, using four mountaintop transponders to simulate satellites. A Geostar spokesman told REASON that in the tests an aircraft, a truck, and a pedestrian were each guided successfully by the system.

Geostar is still aiming to have the system operational, pending approval of communications frequencies by the Federal Communications Commission, by 1988. The contrasts with Navstar are impressive. Although Geostar will serve only US territory, its on-board transceivers will cost only $400 (compared to Navstar's $10,000-$20,000), its user fee is projected to be $1 per use, and its accuracy is estimated at *7 meters.*

If O'Neill and Co. can pull it off, they will make both the Air Force and the FAA look like pikers—and show up Congress for thinking that a subsidy is required to spur development of improved air traffic control.

SITUATION WANTED: FIGHTER PILOT INSTRUCTOR

The mercenary business, one with a long tradition, has recently gained a new twist. *Aviation Week* reported in November that a group of former Navy and Air Force instructor pilots has formed Air Superiority Associates, a private firm designed to train foreign military pilots in the tactical use of US-built combat aircraft.

According to the magazine, ASA has discussed its services with air-force commanders in Belgium, Malaysia, Norway, Saudi Arabia, Switzerland, and Taiwan. Though ASA has not yet been awarded any contracts, it has requested a State Department export license for Norway. Traditionally, US Navy or Air Force personnel train the pilots of nations that purchase US military equipment (in cases where such training is part of the sale).

All of ASA's former Navy instructors have had combat experience in Vietnam, and the firm's former Air Force instructors were trained by Vietnam combat veterans. ASA's program, *Aviation Week* noted, "is not necessarily aimed at new operators [of combat aircraft] as it is at existing operators who need to update their training."

The magazine reported that ASA has received a "mixed response" from US military officials, who fear that such training programs may divulge classified information. But several US and foreign airframe manufacturers "have expressed interest in ASA services for their export customers."

What next—private drill instructors? There's no telling.

MILESTONES

• *Big Brother sent packing.* In November the White House backed down from its proposal to allow government agencies other than the Census Bureau access to information collected by that bureau. Federal law dictates that census data be kept confidential.

• *Free press not coded.* A long-standing effort for a UNESCO-sponsored "code of conduct" for the media apparently evaporated. At UNESCO's general conference in November, "free-press" delegations reportedly scored 19 victories and a coalition of the Soviet and Third World blocs chalked up only five.

• *Listless IRS.* Three companies that compile computerized lists of the estimated incomes of most households—Donnelly Marketing, R. L. Polk Company, and Metromail—have refused to rent their lists to the IRS. The ever-popular agency wanted the data to track down tax evaders.

—ROBERT W. POOLE, JR., PAUL GORDON, AND ERIC MARTI

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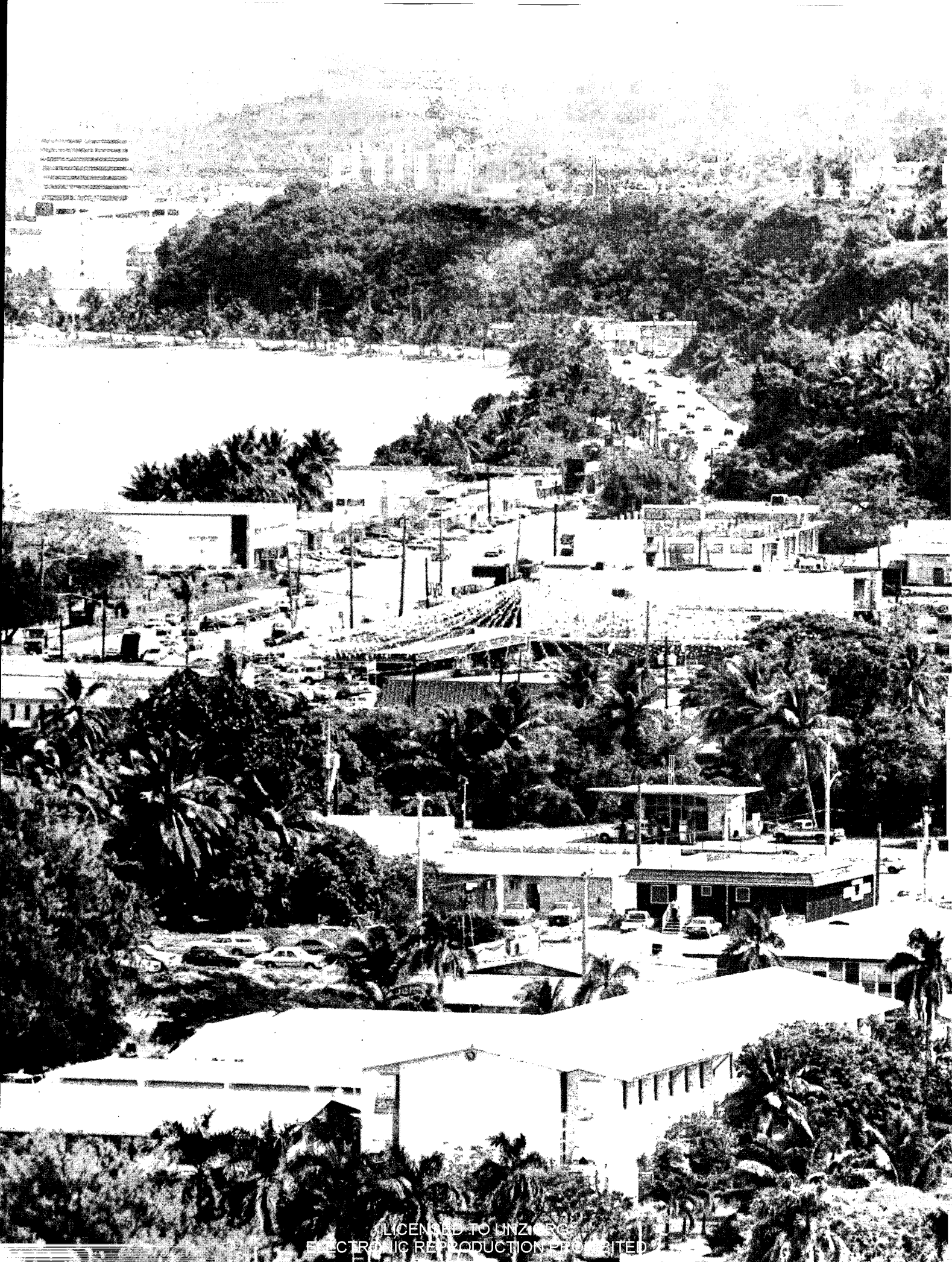

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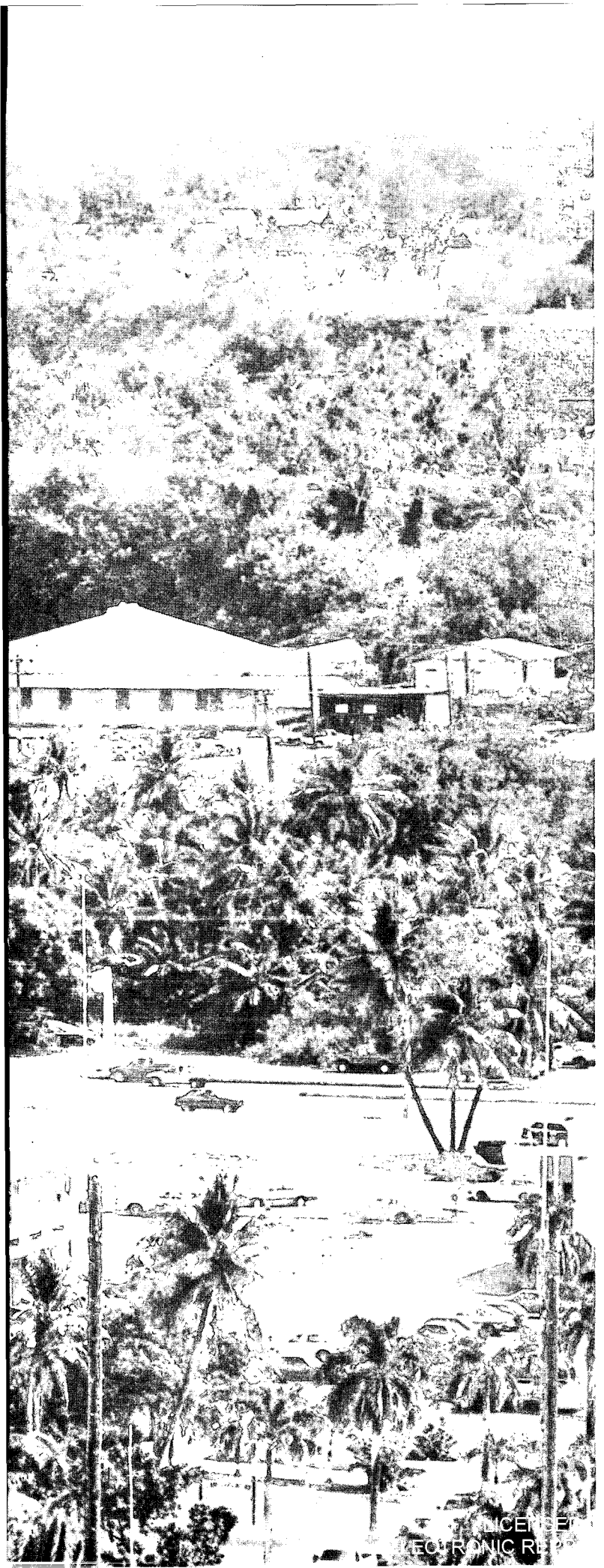


The Little Island That Could

Guam could become a dynamic commercial center in the western Pacific—if Uncle Sam would get out of the way.

BY MARK COLEMAN

At the southern tip of Asia, just off the Malay Peninsula, lies the 227-square-mile island of Singapore, an independent city-state. It has virtually no natural resources (its most important indigenous export is orchids). It was physically and economically devastated by World War II. It is cursed with an abominably hot and humid climate all year. It must import nearly all of its food except pigs, poultry, and the foul-smelling fruit *durian*.

Yet Singapore has become one of the most impressive economic success stories of the 20th century. A major regional commercial center, it is involved in trading, servicing and warehousing, shipbuilding, petroleum exploration, construction, manufacturing, communications, and tourism. Per capita income in Singapore in 1981 was US $5,240, the second-highest in Asia after Japan. With a population of nearly 2.5 million—about the size of metropolitan Baltimore—it has the world's 23rd-largest gross national product (GNP) and the world's second-busiest port, even busier than New York City and exceeded only by Rotterdam. Singapore's average annual growth rate in real GNP from 1970 to 1980 was 6.7 percent, compared to 2.1 percent in the United States and 3.4 percent in Japan. The little island had an unemployment rate in 1981 of 2.97 percent, considerably better than the United States' 7.6 percent in the same year. In the midst of a world recession, Singapore has so many job opportunities that industry actively seeks guest workers from neighboring countries and as far away as Bangladesh.

About 2,900 miles east of Singapore, between the Philippines and Hawaii, is the 215-square-mile island of Guam, a territory of the United States. Like Singapore, it is nearly devoid of natural resources, it is cursed with a hot and humid climate, it suffered greatly from World War II, and it has a natural port.

But unlike Singapore, Guam has a sputtering, faltering economy with few bright spots and a long list of woes. Its unemployment rate is estimated to be 14-15 percent, and its consumer price index increases regularly at a double-digit rate—23 percent in 1980, 17 percent in 1981. Per capita income was $6,711 in 1982—and it's as high as it is mostly because a quarter of the island's work force is employed by local government and another 15 percent are civilian employees of the US military. And although Guam has one of the finest deepwater ports between Hawaii and the Philippines, only one-twenty-ninth as many cargo-bearing ships docked there in 1981 as in Singapore.

What is the reason for this dramatic disparity? It's no secret

PHOTOGRAPHS BY MARK SKINNER

why Singapore has succeeded. It enjoys an essentially free market that "would send chills of delight down the spines of Adam Smith and Milton Friedman," in the words of James K. Glassman writing in the *New Republic.* And why has Guam stagnated? Could it be that Guam *hasn't* enjoyed a free-market system, in spite of living under the territorial rule of the world's supposedly most-capitalist nation?

There couldn't be a better time to reverse Guam's fortunes. Doubts about the future of Hong Kong, the Far East's bustling international commercial center, are increasing daily as a Chinese takeover looms large. With Guam's strategic location at the edge of the Pacific Rim and the long-term political stability it could offer (in contrast to Korea and the Philippines), the island is poised to fill the gap left by a shaky Hong Kong. But this would require a pretty radical rethinking of Uncle Sam's role in Guam. To see why, it is only necessary to look behind the island's present picture.

Guam's port of Apra (above) languishes under federal regulations, while Singapore's port bustles with activity.

When I moved to Guam from Hawaii in early 1978, it represented to me a land of opportunity. I had just been hired by Gannett Corp., one of America's largest media conglomerates, to work as a reporter for its newspaper on Guam, the *Pacific Daily News.* America's westernmost frontier beckoned to me, so I went.

I learned that this US territory is a small, verdant island at the edge of the Western Pacific and the Philippine Sea, about 30 miles long and no more than 10 miles wide. The northern end of the island is an elevated limestone plateau that drops off sharply at the coast. The south is more hilly and rugged, with volcanic uplands and valleys ranging from 500 to 1,300 feet above sea level.

Its climate is hardly paradise-like. Besides being hot and muggy, Guam is frequently buffeted by rainstorms and typhoons.

I found many of the consumer conveniences enjoyed in the States—cable TV, radio and TV stations, movie theaters, supermarkets, department stores, telephones, a modern airport, modern hotels and office buildings, and most of America's leading fast-food restaurants. But the island's rural tradition still shows itself—a cow and chickens can be found feeding on an overgrown corner lot across from the island's tallest office structure, the 10-story Pacific Daily News Building. Such a scene of uneven development is symptomatic of larger problems.

I'm back in Hawaii now, but when REASON asked me to investigate Guam's predicament and potential, I had a chance to go beyond my impressions from living there and explore why the island's Singapore-like mix of natural advantages and disadvantages has been the backdrop of an economy with none of Singapore's vitality and prosperity. I found that in case after case where Guam is well suited to prosper and compete in world markets, burdensome US federal regulations that are insensitive to Guam's unique situation have served to thwart its potential.

Guam's stifling economic environment has prompted many Guamanians to seek their fortunes elsewhere, which is one reason US military recruiters score big on Guam. It also has prompted a radical shift in the thinking among Guam residents during the past few years. Whereas once Guamanians seemed almost eager to trade federal regulations for federal largesse, now there is a growing desire for the self-reliance and opportunities that only freedom can bring.

That freedom is being sought in a variety of ways, the foremost being an attempt to change the island's political status. Currently Guam is an unincorporated US territory, which means it is subject to only the "fundamental" parts of the US Constitution. In practice, this means that Guam is both an "overseas" and a "domestic" location, to which many but not all federal regulations and laws apply. In a few instances, this has worked for the benefit of Guam, but most Guamanians now believe that the island's political status is one of the major reasons for its economic plight.

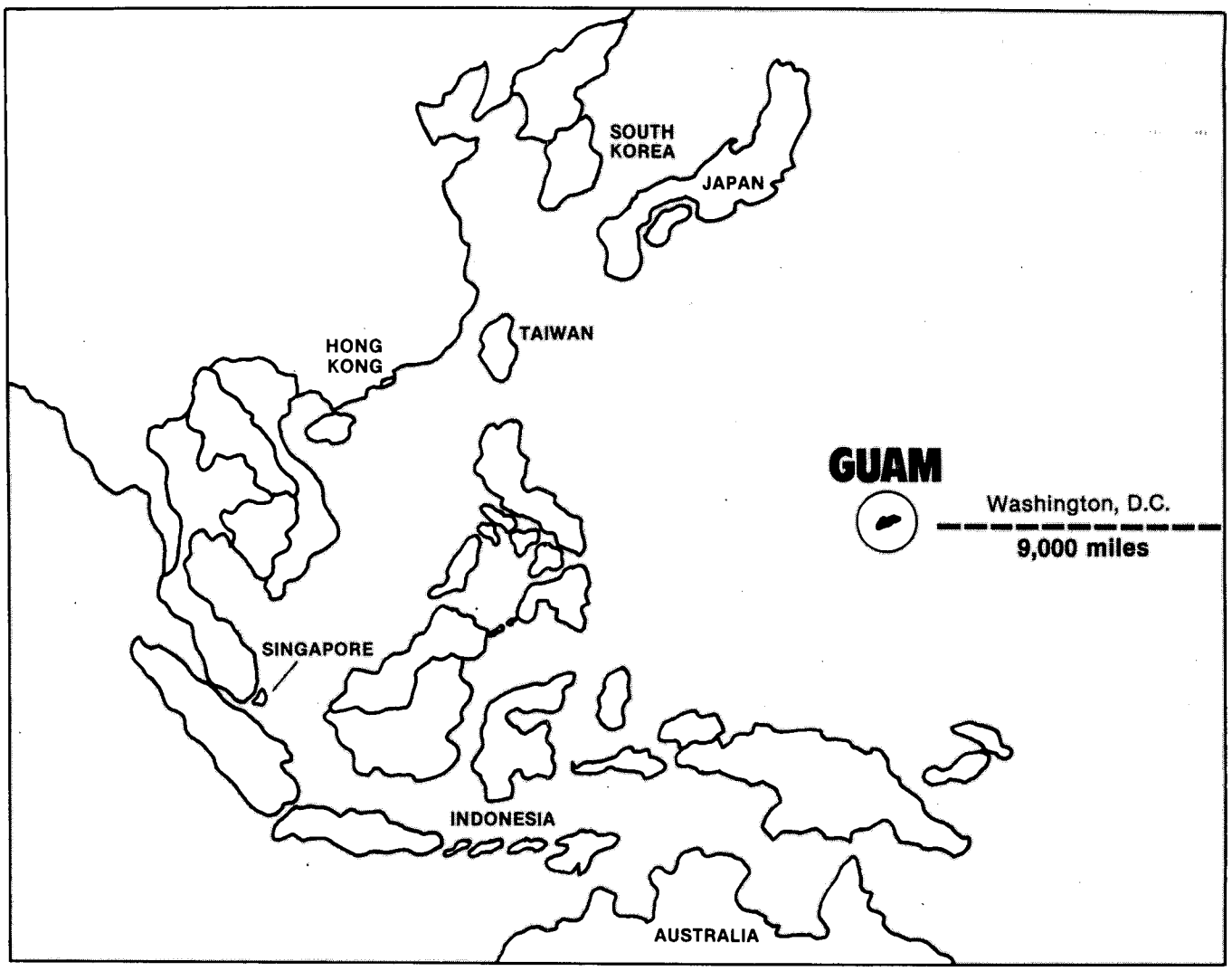
Another strategy has been to seek exemption from restrictive federal regulations and taxes through congressional designation of Guam as an "enterprise zone." Meanwhile, Guamanian business and political leaders have been waging an unprecedented lobbying campaign in Washington to obtain regulatory relief for Guam through piecemeal legislative and administrative actions. Guamanians clearly are tired of suffering a stagnant economy.

The southernmost in the Marianas island chain, Guam has been an unincorporated territory of the United States since 1898, when it was ceded by Spain as a result of the Spanish-American War. The island was put under the jurisdiction of the US Navy until 1950—a jurisdiction interrupted only by two years of Japanese occupation during World War II.

Guam's original inhabitants, the Chamorros, were a tall, robust, brown-skinned people with jet-black hair. They are believed to have migrated to Guam from Malaysia around 1500 B.C. Anthropologists and historians have concluded the Chamorros basically were anarchists. They enjoyed a prosperous and peaceful society held together by intertwined religious beliefs, reverence for elders, matrilineal ties, and property rights.

Chamorro society was unraveled by the Spanish after world seafarer Ferdinand Magellan "discovered" Guam for Spain in 1521. Guam became a way station for Spanish galleons traversing between Mexico and the Philippines. Spanish Jesuit priests, meanwhile, saw Guam as an ideal place to gain converts to Catholicism and, backed by Spanish soldiers seeking political stability, ruthlessly eradicated all Chamorro warriors who resisted, which was most of them. The surviving Chamorro women intermarried with the Spanish, Mexican, and Filipino occupiers.

There is little doubt that life under Spanish rule was oppressive, but more and more Guamanians are questioning how happy they should be that Guam was "liberated" by the US government. Before World War II, various Navy commanders of the island banned public religious celebrations, restricted imports and exports, compelled Guamanians to work on public projects, increased taxes, instituted compulsory education, and outlawed a variety of local pas-



times. In recapturing Guam during World War II from Japan, the US military virtually destroyed the entire island. Afterwards it confiscated private land for "national security" reasons. This displaced thousands of Guamanians from their homes, permanently disrupted Guam's primarily agrarian economy, and delayed development of industry, housing, and commerce on the island.

The US military wanted Guam for the same reason the Spanish did—its strategic location. Originally Guam was used as a coaling station for Navy vessels and as a communications link for US interests in Asia and the Western Pacific. It continues to be a military stepping stone; during the Vietnam war, Guam was a major forward base for B-52 bombers. But what is good for the military has been disastrous for Guam's social and economic structure.

Fortunately, some of the worst Navy restrictions on Guamanian life ended in 1950 with passage of the Organic Act, which granted Guamanians US citizenship and some degree of self-government. But the federal government still owns a third of the island, largely in military landholdings. And one out of every six Guamanian civilian workers is on the military payroll.

Ironically, however, the more pernicious effects of US rule come from 9,000 miles away, from a host of civilian government agencies in Washington that are responsible for distortions of various sectors of the island's economic life. Take agriculture and food imports. I personally experienced having to buy mangoes from Mexico for almost $2 a pound—because US Department of Agriculture regulations forbid Guamanians to import mangoes from the nearby Philippines, where they sell for just pennies a pound.

Guam once was virtually self-sufficient in food production, but now about 90 percent of its food is imported. And because federal agricultural, labeling, measurement, and customs regulations effectively reduce the level of imports from nearby food-producing countries, most of the food imported to Guam comes from the contintental United States. Huge transportation costs are reflected in the island's exceptionally high food prices.

Nor is distance the only factor in those transportation costs. Food transported to Guam from the United States must be carried on ships of US registry. The Jones Act, also known as the Merchant Marine Act of 1920, requires that all goods shipped between US ports be carried on US-registered ships. A. B. Laffer Associates, the economic consulting firm of supply-side economist Arthur Laffer, concluded in a 1981 study for the Guam legislature that "the added constraint of having to use U.S. owned and regulated ships when transporting supplies to Guam has increased the cost of virtually everything Guam imports from the Mainland."

The Guam Department of Commerce has estimated that consumer prices on Guam are at least 15 percent greater than in the continental United States. Having moved to Guam from Hawaii, which itself has one of the highest costs of living in the country, I am convinced that the department's estimate is conservative.

The Jones Act is a cornucopia of other headaches for Guamanians. One restriction within the act limits the amount

MAP BY REASON MAGAZINE

of cruise-ship traffic to Guam by preventing foreign-built vessels from carrying passengers between two US ports. Foreign-built or foreign-flag vessels may be used only for sightseeing voyages or "voyages to nowhere"—specifically, they must go beyond the three-mile territorial sea limit and return the passengers to the point of embarkation.

Yet another federal law prohibits foreign-built vessels of more than five net tons—regardless of ownership—from being employed in American fisheries. This forces commercial or charter fishing companies on Guam either to buy US-built vessels, estimated to cost twice as much as vessels built in foreign shipyards, or simply to abstain from the trade completely. Ironically, federal law allows foreign-flag foreign-built ships to catch tuna, a migratory fish, in the 200-mile fishery conservation zone and then land on Guam, but *US-flag* foreign-built vessels are prohibited from doing so.

Guam's tourism industry is presently the island's main commercial activity. In 1982 the island hosted more than 326,000 visitors, about 80 percent from Japan. But thanks to the federal government's Civil Aeronautics Board, foreign air carrier service to the island is only a fraction of what it could be. CAB restrictions prohibit foreign airlines from carrying local traffic between two points in the United States, and Guam is classified as within the United States by the CAB. So, foreign airlines flying between Asia and the United States have no incentive to develop an Asia-Guam leg on such flights, since potentially lucrative air traffic between Guam and other US points is off-limits.

One of the ironies of the Guamanian predicament is that while some federal agencies are busily crippling Guam's economy by treating it the same as the 50 states, other federal agencies are inflicting harm by classifying Guam virtually as a foreign country. US Customs is a prime example of the latter.

Guam's trade relationship with the States is relegated to "most favored nation" status. In other words, Guamanian imports are vulnerable to the same array of quotas and restrictions as imports from western Europe and even the People's Republic of China. This is, of course, a far cry from interstate commerce, where such restrictions do not exist.

Guam does enjoy a limited exception to this under a US Customs program known as Headnote 3(a). It allows companies to export certain products from Guam to the United States duty-free, provided at least 70 percent of the value of the product (30 percent for watches) has been added on Guam and a substantial transformation of the materials occurred on Guam.

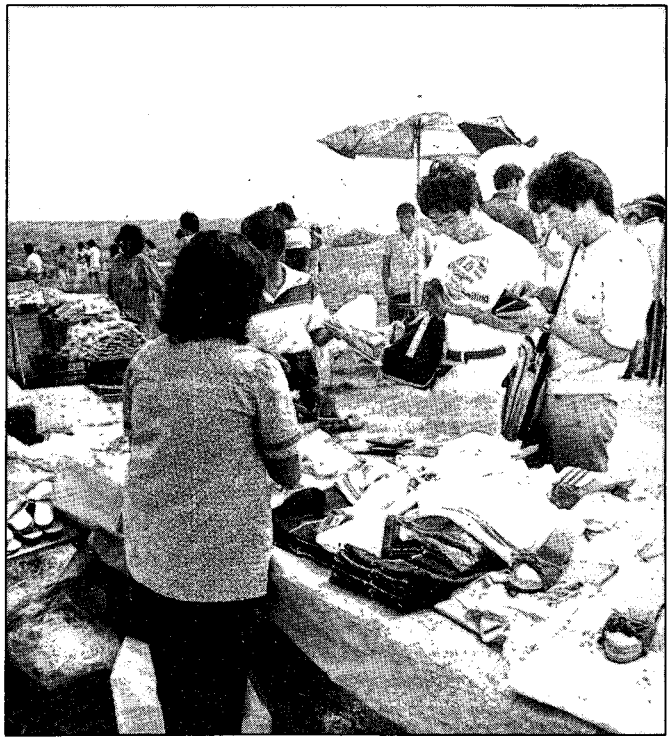
Critics of the Headnote 3(a) program say it has failed to benefit Guam significantly because of uncertainty by potential investors over which goods will qualify for duty-free status and because potential investors are afraid that import quotas eventually will be imposed on the goods that are approved if they become a threat to mainland manufacturers. And in fact, trade statistics show that Headnote 3(a) probably doesn't help Guam all that much. An Interior Department official revealed that of the $12.6 million worth of Guamanian imports to the United States in 1982, only $3 million came in under the Headnote 3(a) exemption.

Guam is also hindered by a "mirror" tax system, so called because individuals and corporations are subject to the Internal Revenue Code, although all the revenues go directly to the government of Guam. So every time Congress changes the tax laws or the IRS issues a ruling, Guam investors are affected, even though the US Treasury doesn't get any Guam revenues. Even more significant, however, Guam is unable to compete with Southeast Asian hot spots such as Singapore and Hong Kong in attracting foreign investors with tax incentives. In addition, some tax treaties between the United States and foreign nations, intended to eliminate double taxation of corporations, do not apply to Guam.

Federal minimum-wage laws also place Guam at a competitive disadvantage to its neighbors by forcing wage rates upward in labor-sensitive industries. And the list of grievances against the federal government could go on and on. It would be harder to find a better example than Guam of the folly of central government planning. Insensitive to local circumstances, federal regulations have strangled and contorted Guamanian society, causing problems that only now are beginning to be fully recognized.

Infuriating to Guamanians is that they are not even allowed a formal voice in the regulations that govern their island. Because Guam is an unincorporated US territory, Guamanians cannot vote for president or vice-president. They have no representation in the US Senate. And their one delegate to the House of Representatives—Antonio B. Won Pat, a liberal Democrat—has no voting power on the floor.

The representation issue has much symbolic significance on Guam, where people still talk emotionally of being "put through the test of fire" during World War II, when the island was ruled harshly by the Japanese, to prove their loyalty to the United States. But it is doubtful whether obtaining the voting rights of other US citizens would do Guamanians much good, especially considering the small impact their votes would have on federal elections.



Japanese tourists flock to Guam, but Washington bureaucrats squelch much of Guam's potential air traffic.

Not surprisingly, many Guam business and political leaders have pinned their hopes for change on other options. So far, the results have been mixed.

When the Reagan administration came in in 1980, Guamanians tried to work with sympathetic federal officials to achieve some regulatory relief. The only significant relaxation has been exemption from the "adverse effect wage rate."

Under the 1941 US Defense Base Act, Guam was classified as an overseas base. Domestic firms doing business with the Defense Department there were required to buy special

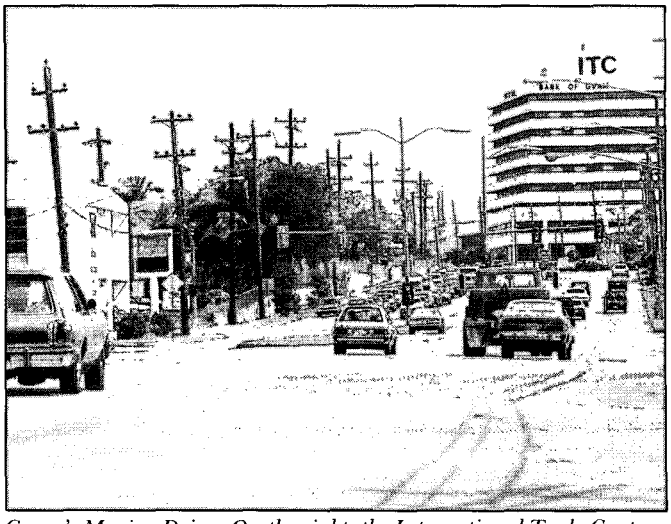
workers' compensation insurance for their American employees, over and above locally required workers' comp. Businesses said that this requirement imposed costs amounting to as much as 35 percent of the payroll costs for some firms doing business on Guam.

Government rules often have effects very different from what is originally intended, and that was the case here. The Defense Base Act gave a large advantage both to foreign firms, regardless of the composition of their work force, and to American employers who hired alien workers. These entrepreneurs were exempted from the requirement to purchase the special insurance. In 1977, the Labor Department sought to correct this imbalance, not by ending the Defense Base Act requirements, but by imposing an "adverse effect wage rate," which mandated that alien construction workers on Guam be paid US mainland rates.

This was purportedly intended to make local workers as employable as alien workers. But once again, the result was different from what was intended.

The higher wages for both local and alien workers wreaked havoc on a construction industry already debilitated by rising interest rates and energy prices, high transportation costs, and a new contractor-licensing law. Between 1977 and 1981, the annual number of construction permits on Guam plummeted by 55 percent, according to Stuart Butler of the Heritage Foundation.

In 1983, a delegation of Guamanian business operators traveled to Washington to plead their case and were successful. The adverse effect wage rate is no longer being enforced, and the Labor Department is preparing a rule change for publication in the *Federal Register* that will formally abolish the rate.



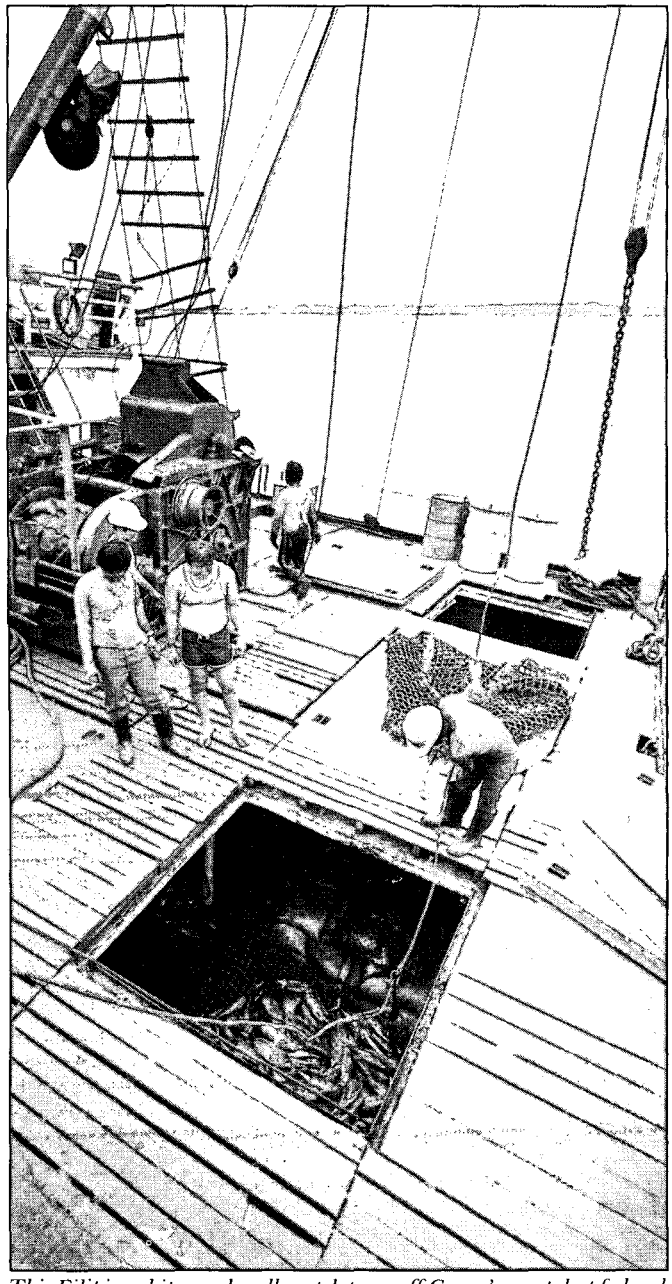
Guam's Marine Drive: On the right, the International Trade Center; on the left, small shops and undeveloped property.

While this is a welcome victory, by itself it provides little reason to be sanguine. Lifting this one regulatory burden took several years of effort. Many, many more burdens remain.

In at least one instance, Guamanians have eventually turned to litigation in an attempt to achieve reform. In November, Guam's Gov. Ricky Bordallo sued Treasury Secretary Donald Regan for the right to tax-haven status. Guam wants, for example, to free foreign investors from a 30 percent withholding tax imposed on interest derived from the United States. But the Internal Revenue Service does not share Guam's vision.

According to a recent *Wall Street Journal* report, when Guamanian officials failed to work out a compromise with the IRS, Governor Bordallo sued, arguing that IRS rules are cutting off needed investment in Guam and violate the right of the island's government to interpret and administer its own taxes. At this writing, it is too early to tell how successful this tactic will be.

Another strategem contemplated by Guamanians—designation of their island as an enterprise zone—is stalled. At the end of the 1983 congressional session, the enterprise-zone legislation of Reps. Jack Kemp and Robert Garcia was bottled up in Congress with little hope of passage and little more than nominal support from the Reagan administration, although early on Reagan had held out great promise for helping economically blighted areas of the country by easing regulations and taxes in what would then be known as "enterprise zones."



This Filipino ship may legally catch tuna off Guam's coast, but federal law prohibits U.S.-flag ships built abroad from doing so.

A third strategem—changing Guam's political status—appears somewhat more feasible. The process for change began in May 1980 when the Guam legislature established a 15-member Commission on Self-Determination. The commis-

sion conducted a plebiscite in February 1982, and a large plurality of Guam's voters indicated that they wanted a commonwealth status with the United States. Statehood was the second most popular option, ahead of unincorporated territory (the status quo), incorporated territory, free association, independence, and "other." In a run-off plebiscite seven months later, commonwealth was favored over statehood by a three-to-one margin.

"A commonwealth is very much like a territory, but it's a territory that has a covenant," explained Cecilia Bamba, the head of the Commission on Self-Determination and a former Guam senator. Bamba told me that the covenant would detail "what the territory's responsibilities and authorities are and what they are for the U.S." Covenant negotiations, she said, would give Guamanians an opportunity to chart the future course of the island.

Right now, the next step for the commission is to prepare a working document for negotiation. The proposed document would than have to be approved by the voters. Bamba hopes a vote will take place next November.

While a change to commonwealth status might be valuable for political and symbolic reasons, there is no guarantee that it would bring with it the economic framework that Guam needs to compete with its Southeast Asian neighbors. Indeed, the US General Accounting Office recently reported that there is no precise definition for commonwealth status. The ambiguity has already caused economic and legal problems for Puerto Rico, which changed from an unincorporated territory to a commonwealth in 1952.

All the debate on Guam isn't confined to arguing which strategy is most promising for economic freedom from Washington's depradations. There are people on Guam who are skeptical of the need for such freedom at all. John Simpson, on leave as *Pacific Daily News* executive editor, says more thought needs to be given to the pros and cons of specific federal regulations before they are abolished. It just may be, my former newsroom boss told me, that Guam is a net beneficiary of federal government policies.

He suggested that more attention needs to be paid to the effect of local legislation and regulations, too. "To say that lifting federal regulations is going to solve everything is a rather simplistic suggestion," Simpson told me.

"It's true that there are a number of federal regulations that have been applied to Guam without much thought and have been detrimental. But at the same time, there are probably an equal number of locally generated regulations that in some ways can be just as constraining and hampering."

While there is ample reason to believe that Guam does not benefit from federal controls taken as a whole, Simpson's contention that local regulations can be as harmful as federal regulation is borne out by other observers. Simpson's politics are such that a photo of John Kenneth Galbraith hangs on his office wall, but the A. B. Laffer Associates report in 1981 made much the same point.

It suggested that Guam's local tax policies, especially, need to be overhauled. Among its recommendations were elimination of the island's 4 percent gross receipts tax, which taxes goods at each stage of production and discriminates against small diversified businesses in favor of larger integrated businesses. The consulting firm recommended that Guam's gross receipts tax, liquid-fuels tax, admission tax, alcoholic-beverage tax, hotel-occupancy tax, and other indirect business taxes be consolidated into a single value-added tax, levied at a constant 5 percent rate.

Other changes that, the Laffer report noted, could be undertaken by the Guamanian government on its own include exploring privatizing the Guam Memorial Hospital, the Guam Power Authority, the Guam Telephone Authority, the Guam Port Authority, and all of Guam's public utilities, each of which is horribly overstaffed, inefficient, and a drain on the public purse. The report also noted that the Guam Economic Development Authority, a partially federally funded local government agency, could be more aggressive in using its authority to reduce corporate income tax rates through rebates and tax holidays.

Unfortunately, none of the report's major recommendations have been implemented. Clearly, if Guam is to become an economically vibrant success, Guamanians themselves must put aside old ways of thinking of their country as a US dependent. As Stuart Butler, who first visited Guam in 1981 and has maintained an interest in the island, noted in a recent Heritage Foundation report, since "more than 40 percent of all workers are employed by the federal or territorial governments (compared with about 15 percent on the US mainland),...the public sector has tended to be viewed by the Guamanian government and population as the only hope for economic development." And this, says Butler, won't do if Guam is to build a future based on the risk taking associated with free enterprise.

That's what Singapore has done. And that's what its island "twin," Guam, could do as well. The fate of the British crown colony of Hong Kong offers a golden opportunity, although it's a source of hope for Guam not often mentioned by Guamanian politicians or Washington government economists.

In 1997, Britain's 99-year lease of 375 square miles of Chinese mainland and islands will expire. This means that nearly all of the world's third-largest financial center—after New York and London—will almost certainly revert to rule by China. It is conceivable that China would leave all or part of Hong Kong's capitalist system intact, but most residents of Hong Kong aren't counting on it.

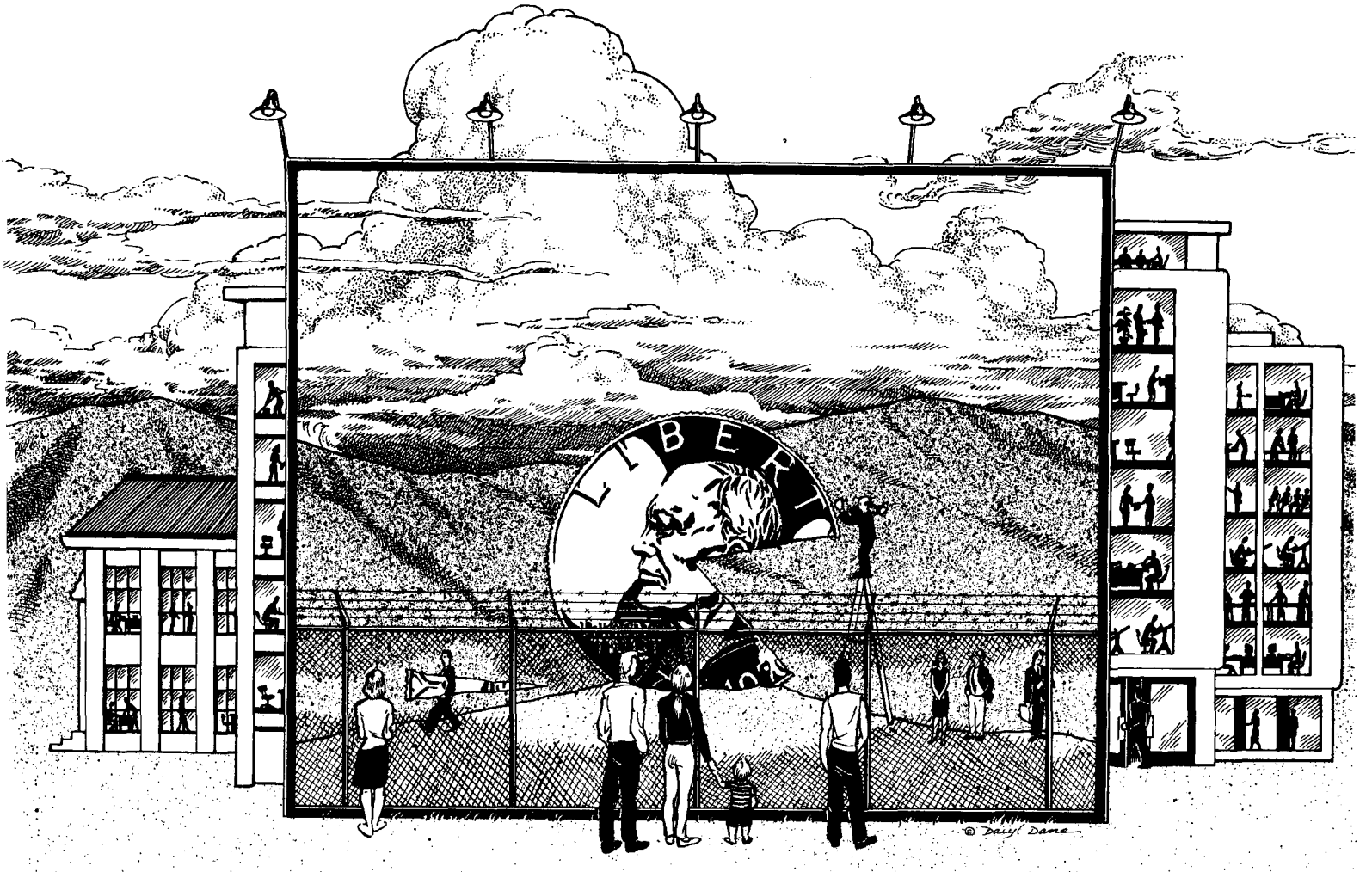
Already the Hong Kong dollar has fallen in world markets. Real estate prices have tumbled. Many Hong Kong residents are reportedly sending their families to Canada and desperately looking for inexpensive and obtainable citizenship as far away as the Dominican Republic and Belize. As a recent *Business Week* report on Hong Kong said, "The future does not look very promising after 1997."

But as Stuart Butler has pointed out, Guam has great potential to attract beleaguered Hong Kong businesses and investors. It occupies a "pivotal position in the western Pacific," only three hours' flying time from Hong Kong, Tokyo, Seoul, and Manila. With its affiliation with the United States, it is far more secure politically than the Philippines, South Korea, and Taiwan.

In several forums, Butler has urged the US government to "decolonize" Guam through "sensible changes in the laws that govern the island." Such changes, he notes, could transform Guam into a "power house of trade in the Pacific Basin and a forward base for American business in Asia," and provide a "showcase experiment on the effects on economic activity of sensible deregulation and tax policy."

"All that Guam needs is a green light from Washington," Butler wrote in one report. He might have added a green light from Guam's own government, but the point is the same. If Guam were freed of some of the senseless government burdens on its economy, its chance to become the next Hong Kong could be just around the corner. It might even give Singapore a little competition, for a change. ◻

Mark Coleman is a reporter for Pacific Business News *in Honolulu. This article is a project of the Reason Foundation Investigative Journalism Fund.*



WHEN THE RICH GET RICHER

An inquiry into the nature and causes of the wealth of individuals

We are crew members of an oceangoing vessel sailing the high seas. Our ship runs aground on an uninhabited island and is irrevocably damaged. We must spend the rest of our days on the island, a self-contained community.

Our new homeland is special, however, for scattered on the beach are hundreds of gold coins! Naturally, those members of the crew who happen first to the beach hastily collect the coins. Within the hour, they have gathered them all up. Those who happen to be sleeping or sick or manning the pumps when the coins were discovered have none.

In the evening, a meeting of the entire crew is held to discuss themes of wealth, poverty, and the proper role of government. Under the circumstances, what views seem just and reasonable?

We see at once that the coins represent a natural endowment of the island. Those who collected them did no noticeable work; they were simply lucky bystanders. Hence, as a basis for our subsequent discussion, we enunciate these self-evident propositions:

1. The wealth of a community is rightfully the property of the entire community.
2. The rich are undeserving of their wealth.

As we turn our attention to poverty, we recognize that, again, it was simply a question of luck. That a crew member has no coins in no way reflects on his productivity or his contribution to the community. He just didn't happen to be around when the coins were being gathered. Hence:

3. The poor are undeserving of their poverty.

If the poor are not responsible for their plight, who is? Almost as soon as we raise the question, we see the answer. The rich are not innocent in the luck they have enjoyed. By picking up the coins themselves, they have precluded the others from doing so. The quantity of coins being fixed, a zero-sum rule applies: the more one gets, the less another can have. Envy of the rich, it turns out, has logical basis in our community:

4. The rich are responsible for the poverty of the poor.

It does not take us long to decide what principle should govern the allocation of wealth on our island. Since the coins

By James L. Payne

ILLUSTRATIONS BY DARYL DANE

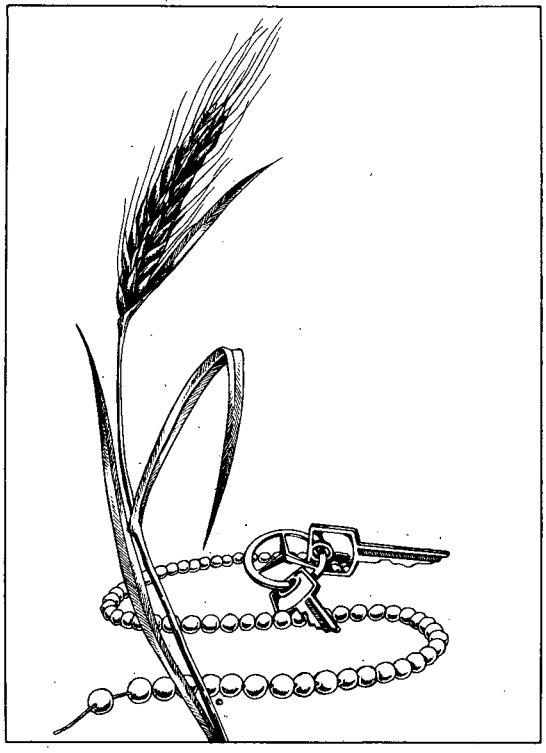
are community property, uncreated by any of us, they are equally owned by each member of the community. Hence:

5. The wealth of the community should be distributed equally among the members.

We find, however, that when we propose this rule, those who already have the coins selfishly refuse to part with their excess. What, then, should we do? Obviously, we must create an apparatus of coercion—a government—to take the coins from them and spread them equally among the crew. In establishing this system of coercion, we announce our purpose:

6. The principal function of government is to redistribute wealth, taking from the rich and giving to the poor.

Where *does* wealth come from? In the above story, I pose a hypothetical answer to this question: wealth is a natural endowment that fortunate bystanders happen to collect. Is this assumption true to life? Strangely, many people appear to believe that it is. They have succumbed to the "endowment illusion"—*the belief that the wealth of a community is fixed and is bestowed upon it by natural processes.* Upon this premise, they found their deductions about economic life.



I have called this belief an illusion because it is not an ordinary type of error. It is not a mistake that, once pointed out, is henceforth avoided. It is an intuitive impression that arises from our perspective on economic life. Even when reason tells us that it is false, our eyes keep seeing it. As to its source, there may be several explanations. One possibility is that it arises from a static world view. We human beings often have great difficulty incorporating motion or time in our thinking. We prefer pictures that freeze all relationships permanently, so that we may examine them. But wealth is created (and destroyed) in dynamic processes visible only over time. If our minds reach for a static picture, we get the wrong impression. At any instant in time, the quantity of wealth is fixed. But one instant is only part of the whole.

The endowment illusion operates like the flat-earth illusion. This fallacy, too, is based on a recurring perceptual error. The earth is round, but our eyes keep telling us that it's flat. In order to reason correctly about global geography, we must reject our instant impression and be guided by logic and knowledge.

The same sort of challenge confronts us in matters of economic policy. We have to make judgments that depend on the basic assumptions we make. Which assumption will we use—that wealth is created by human effort, talent, and sacrifice, or that wealth is endowed by nature? If we do not consider the issue thoughtfully, we are likely to fall back on our untutored impression. The endowment illusion will become the foundation of our analysis.

This foundation, in turn, leads to a large body of unsound economic and political doctrine. The shipwrecked crew members derived six of the more obvious deductions that follow directly from the endowment assumption. They are not unfamiliar points. In fact, they are the ideas in whose name millions of people have been oppressed in this century.

Does the endowment illusion have so much power? Can such a simple, almost innocent, misconception underlie a crushing ideology? It may seem an exaggeration. But consider some cases of the endowment illusion at work. For our subjects we do not need to go to the Kremlin or to the jungles of El Salvador or pore over socialist tracts and utopian novellas. All we need do is dip into the books, articles, and speeches produced by mainstream Americans. There we will see the enormous dislocation in sound thinking that the endowment illusion produces.

In October 1980, the Girl Scouts of America launched a campaign against world hunger. To guide and inspire this effort, the president of the Girl Scouts, Jane Freeman (the wife of former secretary of the Department of Agriculture Orville L. Freeman), undertook to instruct her followers on the proper attitude toward the ownership of food. "We have to make the problem realistic for our membership," she told a group of scout leaders. "There is a need for thinking about food and resources as being global property owned by people of the whole world. We should look at food not in a 'giving' sense, but in a sense of its being a joint right—food and resources should be seen as shared joint rights"

Mrs. Freeman never pauses to explain or defend this declaration. She takes it for granted that the common-ownership principle is both a morally high-minded doctrine and a realistic foundation for alleviating hunger in the world. A little reflection reveals that it is neither.

Take the moral, or ethical, aspect. Where does food come from? Farmers produce it, of course. To see what is involved, let us consider a dairy farmer who brings 70 gallons of milk to market each day. To produce those 70 gallons of milk, the farmer rises at 4:00 A.M. and feeds the cows and milks the cows and cleans the milkers and shovels out the barn and forks out new bedding. He cuts hay; he bales hay. He loads bales, and he unloads bales. To produce his 70 gallons of milk, the farmer forgoes consumption to invest in silage loaders, aluminum roofs, and steel fence posts. He risks his labor and wealth against accidents and weather every time he plows a field or plants seeds or spreads fertilizer. Week in and week out, he adapts, invents, plans, and worries to keep 70 gallons of milk a day flowing from his farm.

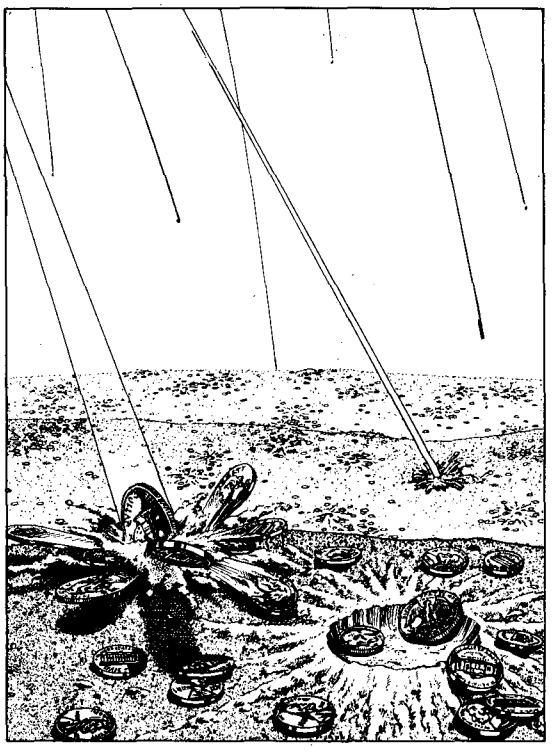
Now we say that the milk does not belong to him. He has no just title to it; all his laboring and planning and sacrificing are irrelevant to the question of ownership. Instead, the milk belongs to us, the "people of the whole world." Is this assertion not preposterous? We are simply bystanders. We have done no work, taken no risks, forgone no pleasures, to bring the milk into being. If we took the milk by force, would our act be anything but robbery?

The common-ownership idea, it quickly turns out, is far from being a benign precept. It lays the foundation for immorality, both private and public. It justifies theft and pillage as the recovery of "common property"; it excuses piracy as the exercise of "shared joint rights." In the hands of governments, it is used to defend plundering and expropriation. Down through the ages, tyrants of all descriptions have arbi-

trarily seized the wealth of individuals and classes, claiming to be implementing the very principle of common ownership.

Equally destructive are the practical consequences of the common-ownership doctrine. When we declare that producers have no just title to their product, we weaken their motivation. As a result, they relax their efforts and production declines. Consider the dairy farmer. We, the "people of the whole world," show up at his farm to claim "our" milk. The farmer objects to our claim as immoral, but no matter: we have an edict declaring milk to be a "shared joint right." We take the 70 gallons of milk at gunpoint on day one. But what happens on day two and thereafter? Obviously, the farmer will not make the effort he did before, knowing that the milk will be seized from him. He will stop laboring and worrying and getting up at 4:00 A.M. Pretty soon, there will be no milk to take. Declaring production to be common property (and therefore not owned by producers) is a policy that chokes off production.

The point is not just theory. Mrs. Freeman's injunction to think of food as a "shared joint right" has already been widely applied around the world. All of the communist countries, to varying degrees, regulate their agriculture by the collective-ownership principle. As we know, shortages, rationing, and even famine have been the result.



What is going on in Mrs. Freeman's mind? Is she a secret admirer of Stalin or a Manchurian candidate programmed to spout the line of Mao in critical Girl Scout assemblies?

The explanation is much simpler: she succumbed to the endowment illusion. She assumed that wealth—food, in this case—is somehow bestowed on the world. Like golden coins on the beach, the milk and grain of the world lie about for the the taking. And since food is a gift of nature to all mankind, farmers have no just claim to it. They are simply lucky bystanders who happen to gather it up.

And since food pours forth automatically, independent of human motivation and effort, its supply can be taken for granted. Mrs. Freeman can enunciate high-sounding principles of ownership to her heart's content without ever stopping to worry about their effect on production. In the eyes of the victim of the endowment illusion, the amount of coins is fixed by nature; we neither increase nor decrease their number by legislating on the manner of their distribution.

Just how deeply the endowment illusion has gripped Mrs. Freeman's thinking is revealed by her specific proposal for combating world hunger: "We should learn to eat less meat because it takes more energy to convert grain into meat. If less meat is consumed, we can save energy, save money, and make more grain available to people around the world."

Can American Girl Scouts really combat hunger in Africa by eating less meat? If, as Mrs. Freeman believes, grain erupts automatically from the earth in permanently fixed supply, then they can. By indirectly reducing their consumption, the Girl Scouts will "make more grain available to people around the world."

But in the real world, grain, like all other commodities, is produced by human beings who anticipate rewards for their efforts. No supplies are fixed; producers continually adjust their efforts to changes in demand. A decline in consumption brings about a corresponding decline in production. That's what happened with buggy whips, stagecoaches, long underwear, and Edsel automobiles. These items did not turn up in copious quantities in Africa when Americans ceased buying them. Instead, producers simply cut back on their output. If Girl Scouts cease purchasing grain, then that fraction simply won't be produced. In the long run, the supply of grain to hungry Africans will be unaffected.

Is the endowment illusion harmless? Look at the havoc it has wrought in poor Mrs. Freeman's thinking. Attempting to address the problem of world hunger in a high-minded and constructive spirit, Mrs. Freeman was led by this illusion to advocate (1) a defense of theft and confiscation, (2) a policy orientation that, from Cuba to Cambodia, has *led to* decreased food production and hunger, and (3) a nugatory recommendation for her troops.

Mrs. Freeman is in illustrious company, however. William Stringfellow is a Christian writer and lecturer of liberal persuasion who seeks to apply the message of the Gospel to economics and politics. In his book *Dissenter in a Great Society*, he enumerated a few years ago our sins of commission and omission in the realm of public policy.

At the heart of his "indictment of Christian complacency in American life" is the persistence of poverty. Why hasn't it been abolished? There are certain circumstantial explanations: Lyndon Johnson's "war on poverty" was "woefully underfinanced," for example. But Stringfellow believes the problem runs much deeper: America lacks "the moral capability to do away with poverty."

To remedy this deficiency, Stringfellow set out what he believes is the correct view of poverty and wealth. We must never overlook, he said, "the dependence of the rich upon the poor for their wealth. In this world men live at each other's expense, and the affluence of the few is proximately related to, and supported by, the poverty of the many.

"This interdependence of rich and poor is something Americans are tempted to overlook, since so many Americans are in fact prosperous, but it is true today as it was in earlier times: the vast multitudes of men on the face of the earth are consigned to poverty for their whole lives, without any serious prospect whatever of changing their conditions. Their hardships in great measure make possible the comfort of those who are not poor; their poverty maintains the luxury of others; their deprivation purchases the abundance most Americans take for granted."

But is this true? Consider the different ways people become rich and see to what extent they hurt the poor.

One method is saving. A farmer, instead of burning wood each night, suffers through the cold with no fire in his hearth. Naturally, if he keeps on collecting firewood each day, the pile behind his house grows larger. It constitutes wealth, paid for by the farmer's self-sacrifice. Certainly he has done no harm to anyone, rich or poor, by his act of saving. Whether he chooses

to conserve his firewood or to burn it, his neighbor down the road is made no colder.

Another method of increasing wealth is performing additional work. A tailor who used to make two shirts a day begins to work nights and therefore makes three shirts. His earnings increase, and he begins to accumulate wealth. Has he hurt anyone? When the poor come into his shop, he takes their money, it is true. But he gives them shirts in return, and they must feel they are better off or they would not willingly make the exchange. Surely, producing goods for the poor to buy helps them.

Investment is another process that can lead to the creation of wealth. Instead of hoarding or consuming something of value, a man lends it to another to use productively. For example, the owner of a boat might lend it to a fisherman, rather than leaving the vessel tied up in idleness. The fisherman repays the owner with part of the catch. How can this activity hurt the poor? The boat owner benefits, but so does the fisherman, who otherwise, we gather, wouldn't have any catch at all.

One of the most spectacular processes leading to the creation of wealth is the combining of productive factors in more effective ways. For example, a factory might originally produce 100 tractors a week. By directing a rearrangement of machines and processes that cuts down on waste, a talented manager might raise the production to, say, 110 tractors a week. Typically, the benefits of this increased production would go, in varying degree, to workers, investors, and consumers, as well as to the manager who devised it. But suppose in this case that the manager gets all 10 extra tractors as his reward. Of course he becomes wealthy. But has his activity, or his reward, hurt anyone? The workers are working the same as before and receiving the same wages; they have been neither hurt nor helped by the rearrangement. The investors are as well off as they would have been, and so too are the buyers of tractors.

Do the wealthy live at the expense of the poor? In the four quite common processes just described, the creation of wealth either has nothing to do with the poor or actually benefits them. How did Stringfellow miss these points? Does he mean to condemn saving or working hard or creating jobs through investment or increasing production through the efficient management of resources? Obviously not. It simply doesn't occur to him that anyone could amass wealth without hurting someone else.

It seems clear that Stringfellow has succumbed to the same malady that afflicted Mrs. Freeman. To the victim of the endowment illusion, the supply of wealth is fixed. It therefore follows logically that "in this world men live at each other's expense." The more golden coins one person takes from the beach, the fewer there are for the next to collect. And what is true for individuals is also true for nations. The poor nations that don't get in there for their fair share of coins make it possible for rich nations to have an excess; "their deprivation purchases the abundance most Americans take for granted." Africans are poor because Americans have somehow ripped off their natural endowment of wheat, blue jeans, and computers. The idea that Americans have made their own computers is blocked out.

As Stringfellow's diagnoses are based on the endowment illusion, so are his prescriptions. His principal recommendation for combating poverty is a measure aimed at creating jobs for the poor: "A modest beginning would be the reduction of the work week, thereby both preserving existing jobs and multiplying hirings. It is no panacea, but the shortening of the work week without a corresponding reduction in wages, if accompanied by safeguards against 'moonlighting'. . . could significantly increase employment."

This proposal is a veritable Black Museum of endowment illusion fallacies. First, it assumes that the number of jobs is fixed—a point readily contradicted by data in most almanacs. When the Pilgrims came to America, there were a few dozen jobs; now there are more than 104 million. But the endowment theorist, wedded to his static world view, cannot encompass such changes. For him, employment opportunities are fixed; they cannot be increased by human effort or design. Hence, reasons Stringfellow, we have to redivide the employment pie by reducing the work week.

More important, the proposal ignores the productive aspect of work. It treats a job as simply an income-receiving opportunity requiring nothing by way of motivation or talent. From the endowment perspective, this view is logical. The golden coins are already created by natural circumstances; a "job" is simply an opportunity to collect some of them, a pass onto the beach.

In the real world, however, a job is not just a paycheck. It is giving something in return for wages received. That is what makes it different from welfare. Welders are not people who simply hang around in the vicinity of welding with their hands in their pockets. They do it; they make a contribution. The same is true for typists, police officers, nurses, shipping clerks, lathe operators: with their talent and effort, they contribute something to others in return for their pay.

Limiting the work of some, therefore, does not mean that the unemployed poor will take their places and make an equivalent contribution. To take an extreme example, put brain surgeons on a short work week. But would this measure "multiply hirings"? Would we actually create more brain surgeons from the ranks of the unemployed? By legally forcing society's most productive members to work less, Stringfellow's policy would lower overall production and impoverish the country.

Once again we see the pernicious effects of the endowment fallacy. Stringfellow begins with the kindly intention of alleviating poverty. Under the spell of the endowment illusion, he winds up propounding a formula for economic ruination.

"To affirm that men live in this world at each other's expense," declared Stringfellow, "is a confession of the truth of the Fall rather than an assertion of economic doctrine or a precise empirical statement." Many agree with him that we live in a zero-sum world, that this is the fundamental human condition depicted in the Bible. Guided by the endowment illusion, they see human relationships as basically competitive: since Adam, humans have meanly struggled at each other's expense for larger slices of a fixed pie. This image of competition leads, in turn, to a political philosophy that stresses the coercive regulation of economic life. Since people necessarily injure each other in their economic activities, this view runs, they must be controlled by force. The state must decide "fairly" all questions involving the distribution of golden coins; it must set wages, prices, and incomes. The endowment assumption leads, in the end, to a tyranny—possibly a benevolent one, possibly an intelligent one, but a tyranny nevertheless.

What a difference it makes to free ourselves from the endowment illusion! We not only avoid a skein of economic fallacies and destructive policy proposals; we also shake off a degrading political philosophy. Free individuals do not fight over a fixed pie; through their own efforts and joint enterprise, they expand the pie. Wealth is not endowed. Human beings *create* wealth through their labor, their cooperation, and their ingenuity. Once we realize that, we open our horizons to philosophies that respect work, property, and freedom. ◧

James L. Payne is a professor of political science at Texas A&M University. He is the author of three books on Latin American politics and a recent volume on US foreign policy, The American Threat.

TRACKING A CURIOUS FACT

How US rails got their track together

By Peter Samuel

Were a traveler in Australia to take a rail journey across the southern part of the continent and 'round the eastern coast, he would proceed on train tracks of, on various portions of the trip, three different sizes. On the 1,600 miles between Perth and Adelaide, the distance between the tracks' two rails (the railway's "gauge") is 4 feet 8½ inches, the "standard gauge." Adelaide to Melbourne has broader tracks—5 feet 3 inches. Along the hilly eastern coast from Melbourne to Sydney and then on to Brisbane, the train again travels on standard-gauge track. But then from Brisbane to Cairns, the train traveler finds himself traversing narrower track, with a gauge measuring 3 feet 6 inches.

Trains, however, can travel only along track whose gauge matches the spacing of the train's wheels. So wherever rail lines with different gauges are to connect, passengers and cargo must be transferred from one train to another. In Australia, as this hypothetical rail journey illustrates, this can happen several times over the course of a trip.

Evidently, Australian railroads manage to get along this way, however inefficiently; and the hodgepodge of different rail gauges in my native country would be a matter of rail trivia were it not for the interesting contrast with the United States. As I discovered upon moving here, nearly all train tracks in the United States have the same rail gauge. And therein lies an interesting tale about the public sector versus the private.

The United States and Australia are similar in some respects. The contiguous 48 states of the United States have an almost identical land area to Australia—3 million square miles. Australia's population of 15 million, while obviously much smaller than that of the United States (230 million), is highly dispersed, creating a substantial demand for transportation, and Australia has always been a large producer of bulk commodities suited to rail transport, such as wool, meat, coal, metal ores, and automobiles. Yet the development of railroad transportation in Australia has long been hampered by different rail gauges.

The railroads in Australia's two most populous states, New South Wales and Victoria, respectively have gauges of 4 feet 8½ inches and 5 feet 3 inches. The two states largest in area, Queensland and West Australia, were developed with 3-foot-6-inch-gauge rail lines. So was the island state of Tasmania. South Australia's northern lines were also built with a gauge of 3 feet 6 inches, as part of a scheme to link up with a cheap 3-foot-6-inch-gauge system in the Northern Territory; but its southern lines were built as border spillovers from Victoria's system, whose gauge is 5 feet 3 inches.

Early in this century, though, Australia's federal government got involved with the nation's rail systems and chose 4 feet 8½ inches as the "standard gauge" for the transcontinental link across the Nullarbor Plain. That introduced a further complication, because a long 4-foot-8½-inch stretch was interposed between a 3-foot-6-inch West Australian system and the mixed 3-foot-6-inch and 5-foot-3-inch South Australian systems. As of the 1930s, when railways reached their peak of importance worldwide, there were the following numbers of gauge changes in the lines connecting various Australian state capitals: Sydney-Melbourne, one; Sydney-Adelaide, one; Sydney-Perth, three; Adelaide-Perth, two; Brisbane-Sydney, none; Melbourne-Brisbane, one.

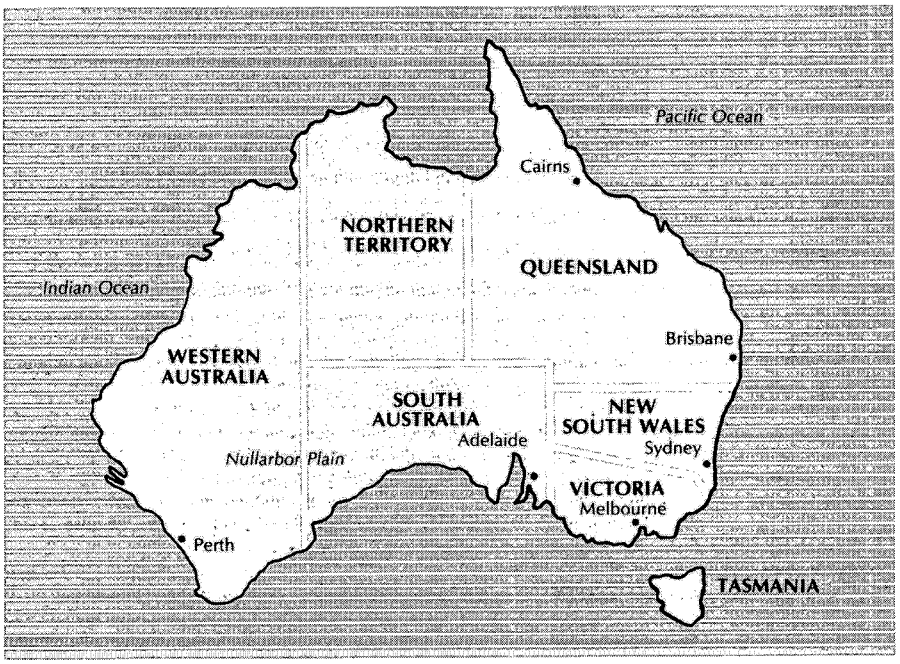
In Australia, railroads traditionally have been government built. First they were built by the various colonial governments, then, after the federation of 1901, by the successor state governments. The railroads were designed as part of a spoils system of politics, without regard to economic viability. Part of the railway pork barrel was the focusing of the new state systems on the principal state port—Sydney in the case of New South Wales, Melbourne in Victoria, and so on. Only well into this century, with the development of nationally oriented manufacturing industries, did the need for interconnections between the incompatible state systems become powerfully evident.

The different systems got different gauges for odd historical reasons. New South Wales, demographically Australia's most English colony, simply followed the

PHOTOGRAPHS COURTESY ASSOCIATION OF AMERICAN RAILROADS

English standard gauge of 4 feet 8½ inches. Victoria, more Irish in make-up, had an Irish engineer in charge of its railways at the start, and he preferred the Irish 5-foot-3-inch broad gauge. The outer states picked the narrow 3-foot-6-inch gauge, because they thought it was cheaper to build.

Australia has never got its railways out of that historical mess. Federal politicians in the post-World War II period have repeatedly run for office with the promise to standardize the gauge of the country's railways. And billions of the taxpayers' dollars have been spent on standardization schemes. At last by the 1980s, after some 35 years of various standardization works, there are no breaks of rail gauge on the main trunk lines connecting the five mainland state capitals. There is now 4-foot-8½-inch-gauge track connecting Perth, Adelaide, Sydney, and Brisbane and Sydney and Melbourne. The rail gauge between Melbourne and Adelaide remains, as always, 5 feet 3 inches. But none of the state railway systems as such has been standardized. With the exception of the intercapital routes, the systems are as diverse as ever.



Having in mind this Australian background, I was interested to examine the parallels in the United States. The standard US railroad histories have scant reference to rail gauges and standardization. It has not been a contentious issue in this country, because here, standardization was completed a century ago.

In the library of the Association of American Railroads, however, there are a number of old booklets, lectures, and magazine articles that go into the detail of how standardization occurred under the private ownership that has always prevailed in the American railroads. The American episode of rail-gauge standardization shows what private ownership and the free market can achieve, as compared to the political process, which is dominant when—as in Australia—government owns the rails.

A 1942 book, *This Fascinating Railroad Business* by Robert S. Henry, outlines how, in the first half of the 19th century, the United States had even more different rail gauges than Australia. The earliest American railroad, the Baltimore and Ohio, adopted the 4-foot-8½-inch "Stephenson gauge" (named after engineer George Stephenson, who built the world's first proper railroad, the Stockton and Darlington in England, with this size gauge). Railroads in Pennsylvania and Massachusetts followed suit and used the Stephenson gauge, too. So did some of New York's railroads, notably the Hudson River and the New Haven railroads.

But New York was the progenitor of a variety of other gauges. The famous Erie Railroad was built with a 6-foot gauge. So was the adjacent Atlantic and Great Western, running across Pennsylvania and Ohio to Cincinnati. And the third 6-foot-gauge line, the Ohio and Mississippi, took the broad line on out to St. Louis.

New York also spawned a 4-foot-9-inch-gauge line, the Mohawk and Hudson. The Camden and Amboy line of New Jersey had a 4-foot-10-inch gauge, as did the delightfully named Mad River and Lake Erie Railroad. This gauge was based on the gauge of locomotives made at the Rodgers Locomotive Works in Paterson, New Jersey. There was also a 5-foot-4-inch-gauge railroad in New Jersey—the Sandusky, Marsfield, and Newark Railroad.

A strong personality as chief engineer often guaranteed a railroad a new gauge, it seems. The forceful engineer Horatio Allen, who designed the Mobile and Ohio line, went for a 5-foot gauge, which became a standard in the South and remained so even after the Civil War.

During the Civil War, as the battle lines between Blue and Gray ebbed and flowed, railroad tracks, being vital supply arteries for the armies, were torn up and relaid. The 5-foot Louisville and Nashville Railroad, for example, was repeatedly destroyed and rebuilt. Perhaps the speed with which rebuilding was accomplished made railroad operators realize, in later decades, that gauges could be redone. During the Civil War, the lack of a uniform gauge certainly was seen as a major barrier to efficient transportation.

With the building of the transcontinental railroad, in the 1860s, there was another battle of the gauges. J. P. Kirkwood, chief engineer of the Pacific Railroad (predecessor of Southern Pacific), chose a 5-foot-6-inch gauge, and 283 miles of the transcontinental line were built eastward from California with this size track. Eastern standards prevailed, however, and when the construction began in earnest, Central Pacific's 4-foot-8½-inch gauge was used.

The most detailed account of actual rail-gauge standardization that the Association of American Railroads could find was a 1928 lecture by Charles Frederick Carter, entitled "Vagaries of Railroad Evolution: The Riddle of the Gauge." Carter was a publicity agent of the New York Central Railroad and his lecture was given to the New York City Athletic Association on January 23, 1928.

Though the new use of railroads to carry supplies and troops north and south during the Civil War highlighted the potential benefits of standardization, the decisive first moves were not made until 1871. According to Carter, standardization of gauges was started by the directors of the Ohio and Mississippi Railroad when, on January 28, 1871, they voted to convert their 6-foot system to a gauge of 4 feet 8½ inches. The directors ordered new rolling stock and planned the sale of their 6-foot-gauge locomotives and cars. Setting the pattern for all subsequent standardizations, they canceled Sunday trains. At dawn on Sunday, July 23, 1871, gangs began pulling spikes. They moved

MAP BY REASON MAGAZINE

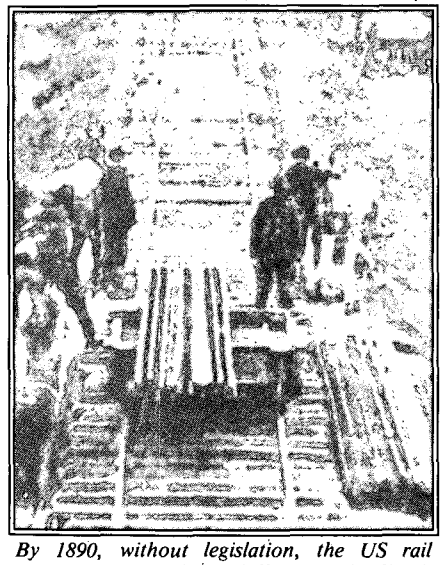
each rail of the 6-foot-wide track inward, respiking the rails to the 4-foot-8½-inch "standard" gauge. By 11 a.m. that day, 400 miles were done, and it was proven that standardization was easily achieved.

The other roads along the route between New York and St. Louis quickly followed the example of the Ohio and Mississippi. Most important of these was the Erie. Also narrowing their gauge to 4 feet 8½ inches in the 1870s were Canada's Lackawanna and the Grand Trunk lines. In the words of Charles Carter, "The owners of broad gauge, finding themselves hopelessly handicapped by their inability to interchange traffic with the majority of lines...began to bring their rails together."

The bulk of American gauge standardization seems to have occurred in two waves—the northeast lines in the 1870s and the southern lines in the 1880s. According to Henry, by 1880 most of the odd wide gauges in the northeast were gone and 4 feet 8½ inches was universal there. The southern roads held firm to their 5-foot gauge until the mid-1880s. Carter reported in his 1928 lecture that most of the South's track was narrowed to 4 feet 8½ inches in three weeks, between May 12 and June 2, 1886. Twelve thousand miles of 5-foot track in the South, Carter said, was standardized with no traffic disruption longer than 24 hours. Armies of men moved from one railroad to another, tearing up and relaying 1,800 miles of track, including all its sidings, loops, and mainlines—the whole railroad. With an allocation of 4 men per mile of mainline track and 5 men per mile in terminal yards (where they had to deal with switches), a total of 8,763 men were employed to execute this impressive feat.

There is a conflict in the accounts as to when the pioneer southern railroad, the Mobile and Ohio, standardized its gauge. Henry dates it as May 21, 1886. Carter dates it as July 9, 1885. In any case, both agree the system was regauged from 5 feet to 4 feet 8½ inches in exactly 12 hours. According to Carter, 500 miles were converted during 12 hours on a Sunday, with the cancellation of only one train. As described by him, two gangs of men worked out from one another. A gang of four men pulled spikes to free the rail. Another drove down stubs. Three men "threw," or levered over, the rail the required 3½ inches. Another 12 men, working in pairs, respiked the rails to the new width. According to the accounts, there was intense rivalry between the gangs to accomplish the greatest mileage of track most quickly. One gang is said to have set the record—five miles of track in 5 hours 30 minutes. The cost of conversion was recorded as $27.99 per mile.

Standardization of the broad gauges to 4 feet 8½ inches was the relatively simple matter of moving inward one or (in the case of 6-foot track) both of the rails, utilizing the existing bed of gravel and wooden ties (the crosspieces to which the rails are affixed with spikes). But standardization of narrow-gauge track to 4 feet 8½ inches is more difficult: the wooden ties usually are not long enough, so the whole roadbed needs to be rebuilt. Furthermore, narrow-gauge lines are often built with curves that are sharper than standard-gauge trains can handle and often with weight limits too low for standard-gauge trains. It is not clear from the historical accounts how narrower-gauge railroads were rebuilt to the 4-foot-8½-inch standard. Though the process is likely to have been more gradual, it was, as with the rebuilt tracks of the southern broad-gauge lines, also a matter of commercial decisions by private operators.



By 1890, without legislation, the US rail system was substantially standardized.

In the 1870s there was a proliferation of narrow-gauge railroads. The Denver and Rio Grande was built with a 3-foot gauge, as was the El Paso–Mexico City line. According to Carter, who fervently disapproved of these small trains, "Denver became the center for narrow gauge propaganda."

Stewart Holbrook, in his 1947 *The Story of American Railroads*, reports that in 1876 there were 81 narrow-gauge lines in operation in 26 states. They ranged in gauge between 2 feet and 3 feet 6 inches. The attraction of narrow-gauge lines were their lower start-up costs. It was easier to raise the money to start up such lines, but, according to Holbrook, they did not make money. Many, however, seemed to struggle on somehow until the 1930s. By 1942, Holbrook says, there were only 1,400 miles of narrow-gauge railroad (most in Colorado), compared to well over 200,000 miles of standard 4-foot-8½-inch-gauge line.

By the 1890s, new narrow-gauge lines seem to have ceased being built, because they were uncompetitive with the standard-gauge lines. By 1890, the American system, despite the lack of any formal apparatus for imposing standardization, was substantially standardized. In the words of railroad historian Henry, this was achieved "not as the result of legislation but of business adjustment, compromise and cooperation among the many hundreds of private companies which built and operate the American network of rails." He concluded with the observation: "Of all the great continents, only North America has succeeded in standardizing the gauge of substantially all its railroads."

(As an interesting footnote to this discussion, it was the railroads that were responsible for implementing Standard Time in the United States. Before 1883, there was no such thing as the Eastern, Central, Mountain, and Pacific zones that now divide the continent into areas of uniform time. Back then, people set their clocks according to "sun time," based on the sun's movement across the sky, or they followed the time standard of one of the railroads that served their community. Congress was unable to untangle the profusion of local times through any legislation, so the railroads took matters into their own hands. On November 18, 1883, every US railroad adopted Standard Time, with the four designated time zones. And American communities quickly followed suit.)

In the present era, there are demands for government involvement in telecommunications and electronics, in behalf of standardization. But the failure of Australia, and of other nations where railways are under government control, to standardize their rail gauges early and easily—as in the United States—provides a powerful historical case against such government planning. Because it would seem intuitively more likely that standardization would be achieved by central governmental intervention, however, there is a danger that these demands will be taken at their face value.

The history of the war of the rail gauges suggests that the best standard may be reached—and reached most cheaply—if left to the free play of market forces and the pursuit of private profit by competitive commercial operators. ◻

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FIGHTING ISOLATIONISM

What foreign policy is proper for a partly free society in an imperfect world?

From the beginning, the topic of foreign policy has been somewhat of a puzzle for the United States. Initially, America's great statesmen advocated a form of isolationism. "'Tis our true policy to steer clear of permanent alliances," said George Washington in his farewell address at the end of his presidency. "Taking care to keep ourselves . . . on a respectable defensive posture, we may safely trust to temporary alliances for extraordinary emergencies."

But it is far from clear that such isolationism was to be a permanent feature of US foreign policy. Washington's reflections on the topic are often quoted by those who blame many of America's troubles on foreign entanglements. At times the same people who are scornful of "18th-century economics"—the laissez-faire capitalism of Adam Smith—are unabashedly wedded to the early isolationism: the United States should not have been involved in a civil war in Vietnam, should not have intervened in Chile, should not have meddled in Angola, should leave Central America alone, should keep its missiles out of Europe, and so on.

It is not similarly incongruous to find isolationism embraced by advocates of a strictly laissez-faire version of America's political tradition of economic and civil liberalism, the political doctrine on which the country was founded. Even here, though, if we scratch beneath the surface we find incongruities.

On the one hand, individual liberty implies the doctrine of government by the consent of the governed. If a government rules without being chosen for the function, it is a tyranny. And clearly, to extend the US government into other realms, even for benign purposes, is to breach the principle of the consent of the governed. Government officials must confine themselves, if they object to what is happening in another country, to explicit or tacit criticism—for example, a "human rights foreign policy" that is long on enunciating the principles of liberty but devoid of interventionist actions to implement them around the globe.

Moreover, the government of a free society has its complicated job carved out already, without taking up the affairs of other governments or peoples. It is as if the physician who is attending to one patient were simply to abandon the operation and turn to saving another doctor's patient. It may indeed be distressing that such help is not forthcoming when it would be helpful, but it can also be seen that governments violate their sacred trust as servants of their own citizens when they take on serving others.

Yet it is not at all clear that these considerations imply a strict isolationism whereby the government of a free society can legitimately engage *only* in defending its borders against foreign aggressors. For example, is it not plausible that such a government could do its job better at times by forming alliances with other governments? Surely mutual advantage might be served in such a relationship, just as fire-fighting services benefit from mutual-aid agreements. To draw up a treaty between two proper governments would seem to offer hope at times against aggressive regimes across the globe.

There is certainly nothing in principle wrong with this strategy. There need be no violation of the duty of the government to protect its own citizens, since the treaty at issue could well be a purely defensive project. Canada and the United States, for example, might each be better

BY TIBOR R. MACHAN

defended by the cooperative military and diplomatic efforts of the Canadian and US governments. If one country's government, in the process of providing effective defense of its people, also provides effective defense of another people for some value in return, no sacrifice has been required. No one need be cheated out of proper services.

In a complicated world, with sophisticated military means of aggression available to tyrannical regimes, it would be irresponsible for a government to take an isolationist stance. Such circumstances warrant defensive alliances of considerable complexity, even for a government that adhered perfectly to the principles of individual rights and government by the consent of the governed.

In the world we live in, of course, our own government does not adhere very well at all to the principles of liberty that underlie our political tradition. Yet those who advocate a fully free system nevertheless have to make intelligent judgments about foreign-policy alternatives facing the impure regime. And the application of the principles of liberty is again not entirely obvious.

While the United States and Canada are far from free countries, it is true that *far less free* countries could pose a threat to them. Insofar as individual liberty is breached in the United States and Canada on many fronts, we clearly have a system that is unjust. Yet even such a system should carry out its business of defending the country against aggressors. So however flawed the political systems that have evolved in Canada and America, it may well be that the governments of these countries should, all things considered, embark on mutual defense efforts if this is militarily advisable. And the potential for mutually advantageous military alliances with other countries exists as well.

In a complicated world, it would be irresponsible for a government to take an isolationist stance.

Yet as entanglements grow, so does the potential for abuse and corruption of principles. Some alliances may turn out to be far from mutually beneficial. Some may turn out to help regimes that are so far from being worthy of alliances that the alliances could be taken to constitute aiding and abetting a potential agressor.

It is therefore very complicated to discover just what those who advocate a fully free system should support when it comes to the foreign policy of the United States today. Circumstances can change, so that a country that had not been a good candidate for alliance becomes one suddenly, or vice versa. It is difficult for citizens to be aware of developments that would warrant adjusting their government's foreign relations. Detailed knowledge of foreign governments' military capabilities and intentions are needed in order to formulate appropriate foreign policy and military strategy.

Most of us are not foreign policy experts, have no academic or practical contact with the nitty-gritty of foreign-relations and military strategy, and possess little knowledge of intricate developments on the international front bearing on the oughts and ought nots of foreign affairs. Yet if we deem a free society best suited to the flourishing of human beings, we will be concerned with laying out general guidelines for a rational foreign policy for such a free society. But we will also be concerned with the actual possibilities faced by the country we inhabit, the closest to a free society now in existence.

When considering second- or third-best circumstances in political matters, it is useful to consider such cases in morality. People are unable always to keep only the best of relations in their personal lives. At times, a person can play tennis only if he is willing to play with someone who is in some respect morally condemnable. A feminist may buy food from a male chauvinist if there is no alternative in the neighborhood. Morally mediocre circumstances have to be dealt with all the time, and one can handle them better or worse. An artificial stance of purity—"I shall never have anything to do with that louse"—can spell suicide. Stagnation on all fronts may arise if people fail to work for their own well-being because the circumstances are morally tainted.

In judging America's current foreign-policy situation, it is not a wise idea to insist on some rigid stance in the name of being principled. If the security of Europe, for example, is of some significance to the security of the United States, but it is wrong to be forcing US taxpayers to bear the bulk of the cost of defending Europe, it is nevertheless unwise to demand the immediate withdrawal of US troops from Europe unless there is good reason to think that the slack will be taken up by competent military units. The same considerations apply to US-Japanese defense commitments. And in general there may not be any great wisdom in trying to disengage from all foreign involvements. The matter does not yield to *a priori* analysis.

Yet that kind of approach to foreign affairs—or any other practical, day-to-day concerns of government—is tempting for those who align themselves with principles. In fact, however, taking principles seriously is better exhibited by integrating the actual world and its more-or-less controllable variables with these principles. For individuals who care for liberty as the highest social good, as the most important ingredient of a good human community, it is imperative to ask how, personally, they can fully adhere to the principles involved. They must abstain from aggression and its promotion. But at the same time they must consider very seriously the consequences of living with millions of others to whom these principles mean very little.

Some societies *are* more free than others, and it is worth preserving such freedom and the opportunity to expand it.

These people may use aggression any time they believe that they can get their way by aggression. And in the face of entire regimes of such people with adequate power to carry out their designs, the precise moves to be made in foreign affairs are far more difficult to identify that is indicated by any simple statement about the evils of government expansion. Think of how complicated it can be to determine whether someone's use of force constituted aggression in a simple altercation on some street corner. How much more complicated this is at the national and international levels! It is usually a veritable case of shades of grey mingling with shades of grey.

Some societies *are* more free than others, and it is worth preserving such freedom and the opportunity to expand it. We should not neglect such a task by insisting on treating the world as if it already conformed to the standards of liberty we hold dear. ◧

Senior Editor Tibor Machan is the author of Human Rights and Human Liberties, *among other works.*

Rolls Royces and Canned Carrots

True stories of the absurd consequences of government's meddling in business

BY JOHN BLUNDELL

Good evening. I'd like to hire one of your cars for a wedding."

"Certainly, sir. Can I have your address and so forth, and I'll give you a quote."

"Well, I live in Dartford, and I—"

"Sorry, sir, we can't do any jobs in Dartford!"

"But my daughter Linda has her heart set on having one of your lovely Rolls Royces for the big day!"

"Well, if you lived anywhere else, sir, we could help, but not in Dartford, sir."

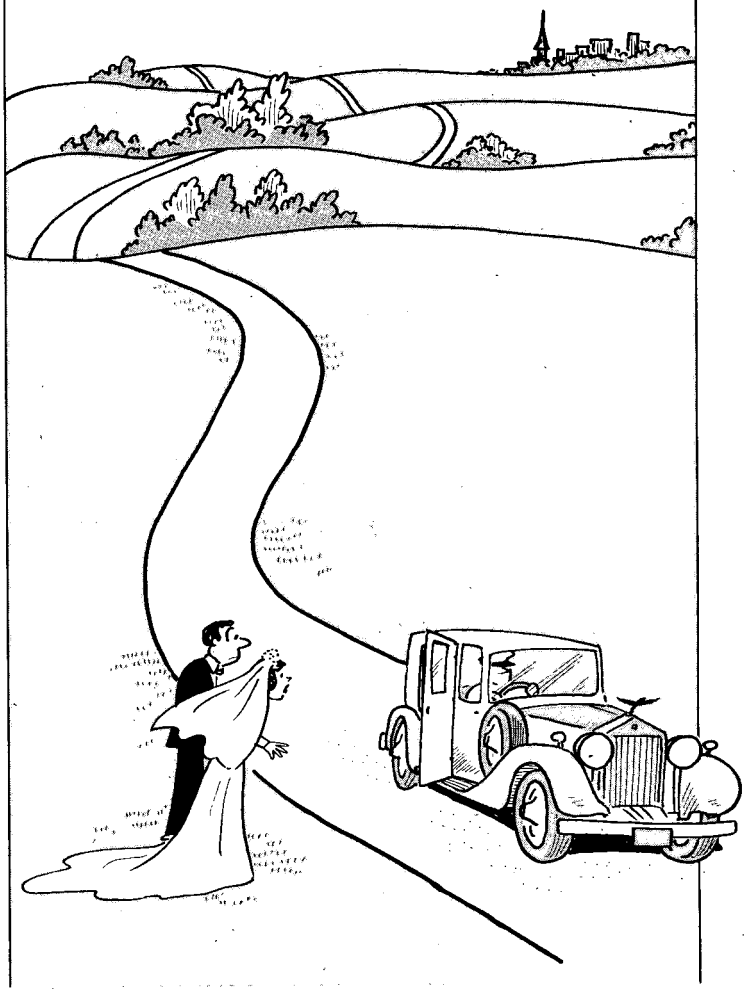
"This is ridiculous—what do you have against us in Dartford? If you're worried about being paid, we'll let you have the relevant amount in advance."

"No, sir. It's nothing personal, and I've nothing against Dartford. We used to have a lot of good jobs down that way.

"It's like this, sir. Some time ago, Parliament passed a bill giving local councils the power to make very strict rules about private hire (car rental) firms. Now, in this area, only Dartford has chosen to bring in such rules.

"First, Dartford authorities told me that if I wanted to do any jobs in their borough, my drivers would all have to take a medical. Now, we only have three cars, but I use about 20 part-time drivers in a year. At £10 per man for the medical, that's 200 quid!

"Next, they said that my cars would have to be inspected by one of their mechanics, and could they all be driven to their garage? Well, sir, all my cars are Rollers and the warranty on the engines says that only Rolls Royce-trained mechanics can touch them—or the warranty's no good. Do you think that Dartford has a Rolls-trained mechanic?



ILLUSTRATIONS BY GODDARD SHERMAN

"But the real killer was the next one. The council decided that no car more than five years old would be allowed to do private hire work. Well, sir, as you know, all our cars are veteran and vintage white Rolls Royces. . . ."

The conversation continued for some time. Eventually, the proprietor said to his would-be client, "If your Linda's so keen to have one of my cars, I'll come and do the job myself—for free. The regulations only cover jobs that are 'for hire and reward,' so it'll be okay if I don't charge."

His offer was gratefully accepted, and a few months later he did indeed do the job at no cost to the bride's parents. However, the story of his kindness in the face of such bureaucratic nonsense had spread, and on the big day the national press turned up to cover the "free ride." "Rolls Bride Cuts Red Tape" was just one of the subsequent headlines, and the press reports detailed precisely why the car-rental proprietor could not charge for the job.

Naturally Dartford's council took quite a beating, and it retaliated. A few days after the wedding (in late 1978), Dartford legal officers began a court case against the car-rental proprietor, claiming that his actions had generated substantial publicity for his firm and that this publicity was so valuable that it constituted "for hire and reward."

The case eventually fizzled out. And by listening to solicitors and others who know how to interpret and advise on the regulations, the proprietor learned to avoid such future legal confrontations. He was told that as long as a job *starts* outside the borough and is one continuous job, with no breaks to pop off and do another quick job elsewhere, then he may accept weddings in Dartford. Consequently, when contacted by potential clients in that area, he now starts off by saying: "Yes, we can do it. But I'm afraid you'll have to bring the groom to the borough boundary and drop him off a few yards this side of it!"

So if you are ever in Britain's Dartford area one Saturday and see a groom getting into an old white Rolls Royce a few yards before a sign that reads, "Welcome to Dartford," you'll understand what's going on.

As a private economist from 1976 to 1982, with Britain's National Federation of Self Employed and Small Businesses (NFSE) as my main client, I saw dozens of cases—like the one above—of government interference with small businesses. And from my observations in the United States, there are few major differences between the position of small businesses here and in the United Kingdom.

Founded in 1974, NFSE—Britain's equivalent of, in the United States, the National Federation of Independent Businesses—grew almost overnight to its present membership level of about 50,000. Though the organization was established just as Labour swept back into power—and much of its spectacular growth can be attributed to a fear of socialism—its creation was prompted by a proposal of the outgoing Conservative government, Edward Heath's, to introduce an extra 8 percent tax on the earnings of the self-employed.

For the most part, the federation takes a fairly principled position. Its membership overwhelmingly favors competition, free entry to the marketplace, and denationalization and opposes subsidies, tariffs, high taxes, marketing boards, and bureaucracy. Occasionally the federation is beguiled into an interventionist position—more through naivete than a conscious decision—but such lapses usually are promptly rectified.

From its earliest days, NFSE not only acted as a pressure group but also as a troubleshooter sorting out members' problems. This latter role was adopted somewhat reluctantly—after all, what were self-employed accountants and solicitors in business for? Partly, of course, to sort out problems. Nonetheless, cases keep flooding in from members.

While I worked for NFSE, hardly a month passed when I didn't see some small business victimized by government meddling. Planning regulations, licensing laws, value-added tax, wages councils, employment-protection laws—all these created a continuous stream of cases that, if they had not caused so much worry, aggravation, and expense—not to mention several suicides—would have been a great source of mirth. The following few tales further illustrate the personal and economic havoc governments end up inflicting upon small-business proprietors when they get into the business of regulating business.

Bill Bedward is a former Guards officer and Dunkirk veteran. In 1964 he opened a restaurant on the outskirts of Bournemouth, Hampshire. It was a family business; his wife helped, as did his son.

In 1973, Britain's Conservative government introduced the value-added tax, and Bill duly registered with the tax authorities as required. Despite the complexities of the VAT—which is a tax assessed on each mark-up of a good at the various stages of production or distribution—Bill managed for several years to comply with all the requirements.

In 1977, however, VAT inspectors began to inspect his premises, both overtly and covertly. One group of inspectors began calling officially to go through Bill's records, while a second group started coming regularly to eat at Bill's restaurant, without identifying themselves.

After a few months' work, the VAT inspectors claimed that Bill had underpaid his VAT by £8,000 (about $40,000 by today's standards), a considerable sum of money for a small business. Slowly but surely Bill's professional advisers began to chip away at this claim, managing to bring the figure down to £4,000, and eventually to £1,500 (about $7,500 today). But the VAT officials refused to go any lower.

Knowing that he was innocent of tax evasion, Bill decided to appeal to the VAT Tribunal in London. Not only was he moved by his belief in his own case and by the money in question; he was further motivated by the attitude of the VAT officials. At one interview, for example, Bill had asked, "Are you calling me a thief?" only to be told, "Yes!" And on another occasion, officers attempting to work out the mark-up on every menu item asked such petty questions as this: "How many prawns do you put in a vol-au-vent?"

At the two-day tribunal, Bill was once faced not just with the three official members and their clerk but also with a team of six VAT officers. One by one, Bill knocked down the remaining VAT claims on his business.

Typical of these was the claim that Bill's records showed a high percentage of wastage on steak (the value of which Bill was permitted to deduct from his VAT liability). However, Bill pointed out that he bought untrimmed steaks, which he then trimmed himself. The VAT officers had assumed that he bought trimmed meat, despite Bill's inviting them to witness a meat delivery and his trimming, an invitation that the officers had refused. Indeed, it was not until *during* the tribunal hearing itself that Bill was given a chance to demonstrate his steak trimming.

Another demonstration followed. Bill served carrots with many meals. The officers had determined that an average por-

tion of carrots weighed 5 ounces—Bill concurred. From this point, however, their claims diverged. The VAT men claimed that since a can of carrots weighed 19 ounces, Bill should get at least three portions from each can. This, they said, would mean a mark-up of 428 percent. Bill claimed he only got two portions out of each can, working out to 230 percent mark-up. Fortunately, Bill had come well prepared and defiantly produced a can of carrots.

Lord Grantchester, the Tribunal's chairman, halted the proceedings to send a VAT officer out to buy a can opener and scales. On his return, the scales were set up, the can opened, and the carrots weighed.

On the face of it the VAT men had a good case: the contents

did indeed weigh 19 ounces. But the officers had forgotten to account for the preservative solution—as the tribunal witnessed, the carrots weighed 10 ounces (Bill's two 5-ounce portions) and the solution 9 ounces.

In his report, Lord Grantchester found for Bill on all counts. He went on to award full costs to Bill, costs that the VAT lawyer opposed most strenuously.

Victorious, Bill returned to Bournemouth to pick up the reins at his restaurant, The Crooked Beam. That night he collapsed and was immediately admitted to the hospital. A year of investigations, slanders, claims, worry, and aggravation had taken an inevitable toll.

Some weeks later I took Bill to see his M.P., David Atkinson, at the House of Commons, to ensure that the matter was pursued further. Bill was still shaky, the lines on his face so deep that John Wayne would have looked like a fresh-faced baby in comparison.

"It doesn't matter to VAT officials," he said, "if costs are awarded against them, because it is not their own money. But if *I* had lost the appeal, it would have bankrupted me. I want to make sure this sort of nightmare does not happen to anyone else."

Bill was stronger than many, and he survived. Others did not. Each year, during such investigations, there were a few suicides.

There was the pub owner who had a dispute with the tax authorities over the correct percentage of beer wastage to use in figuring his tax accounts. He was found in his beer cellar, gassed, with a plastic bag over his head.

There was the antique dealer in North Wales who, during a tax investigation, blew his head off with a 12-bore shotgun. At the inquest the coroner called him "Mr. Honesty."

And there was the elderly businessman who had fled to London from Nazi Germany. One night when he was sitting down to dinner with his children and grandchildren, VAT officers raided his home. While the place was ransacked, the family was separated and held for hours, not even allowed to visit the bathroom alone. After the VAT officers left, the family went to bed. The old man stayed up, and in the early hours he hung himself. A few days later, several hundred self-employed businessmen demonstrated outside the main London VAT office, on Shaftesbury Avenue. Some of the VAT staff responded by leaning out of the windows and making obscene gestures.

In the late 1960s, Harold Wilson's Labour government attempted to move employees from the growing service industries into the declining manufacturing industries. To this end it introduced a new tax, the Selective Employment Tax (SET). All service-industry employers were to pay the tax on every employee every week. Wilson's reasoning was that it would make the service industries shed laborers, who would then move to manufacturing.

The SET had a peculiar effect on the building industry. Until the SET was passed, construction workers tended to be "on the cards"; that is, they were employees. Since the new tax did not apply to self-employed people, however, many contractors told their men to "come back Monday on the lump"—that is, as self-employed workers receiving lump-sum payments (leaving it to the now self-employed workers to pay their own taxes, rather than having them withheld). This device, while not strictly legal under contract law, enabled the contractors to avoid millions of pounds in tax.

Many of these newly self-employed men, however, did not realize the implications of their change in status. All they knew was that they had more cash in their pockets every Friday night down at the pub. So after a year or so had passed, a number of them began to get into trouble with the Inland Revenue, Britain's version of the IRS. Some disappeared back to their native Ireland, and some began to use false names and addresses.

The Heath government eventually abolished the SET in the early '70s, but by then self-employment had already become the norm for many building workers. The Revenue fretted over losing out from unpaid taxes and in the mid '70s persuaded the Labour government to act. A draconian scheme was introduced: All "reputable" self-employed builders who were up to date with their taxes were to be issued with photo-identity cards, known as 714s. Contractors were to make no payments without such a card being produced. If a self-employed laborer couldn't show a card, the contractor had to deduct 35 percent of the worker's pay and forward it to the Revenue. Naturally, a worker not up-to-date with his tax would not receive a card.

When Adrian Alderslade, a young builder from Gosport, Hampshire, applied for a 714, he had a beard. He had his photo taken, filled out the papers, and sent them off. A few months later he was called to his local tax office to pick up his card. At some time during those few months, however, Adrian had

shaved off his beard. The Revenue officer consequently refused to issue the card and suggested Adrian reapply with a new photo.

"How long will you keep the card here before you send it back?" asked Adrian.

"It will be returned at the end of the month, in two weeks time," replied the taxman.

"Okay," said Adrian, "I'll call back on the last day of the month."

He returned home, stopped shaving, and two weeks later went back to the tax office sporting a beard. The Revenue issued the card; Adrian then went home and shaved off his beard!

For many small businessmen the value-added tax is, in theory at least, simple. But the administration and paperwork can be a different matter.

Take a typical VAT-registered trader. In the first quarter of '83 he sells, say, £20,000 worth of goods. At a VAT rate of 10 percent he would collect £2,000 in tax. In the same quarter he has bought £5,000 in supplies, on which he has paid £500 in VAT. At the end of the quarter he deducts the VAT he has paid (£500) from the VAT he has collected (£2,000) and sends in the balance (£1,500). It seems simple.

To accommodate for the peculiar circumstances of certain industries, however, various special schemes were devised. One of these is for second-hand dealers who buy items from the public and sell them to the public.

Joe Corbitt of Newcastle Upon Tyne was a coin dealer and typical of such traders. A regular trader would charge £10 VAT on an item selling for £100. However, Joe was on the "margin" scheme. If he bought a coin for £90 and sold it for £100 he charged VAT only on the margin, that is to say, 10 percent of £10 (£100–£90) or £1.

To run the scheme, Joe had to keep a huge 13-column register. When he bought a coin, he filled in the first six columns: the item number, a description, name and address of seller, the date, and the price. When he sold it, he filled in the next seven columns with similar details as well as the margin and the VAT due.

To begin with, everything went well. Joe had a number of inspection visits and passed with flying colors. Then one day in 1977 a new inspector called. He noticed that sometimes Joe had not filled in every single column, and he took him to task for this. Joe was apologetic, but he made two points in his own defense. First, all the columns relating to money and tax were perfect. Second, the only gaps that occurred were ones relating to details such as the vendor's name and address.

"People walk in off the street," he said. "They ask me to buy items from them, but when I say I need their names and addresses for tax purposes, they often refuse. What am I to do? Turn away business?"

The VAT man wasn't satisfied. He decided that wherever a gap occurred, then that item should be disqualified from the margin scheme. The potential effect of this on Joe's tax bill was enormous. Remember, if he bought an item for £90 and sold it for £100, he charged £1 in tax. What the VAT man was asking for, though, was £10 in tax, £9 of which Joe had not collected and would have to pay from his own pocket.

Joe was not happy. "I'll appeal," he said.

"You can't," said the VAT man. "My decision as to whether or not to accept your paperwork is final."

But Joe did appeal, and after a two-day hearing, his local tribunal decided that it had the authority to look at his paperwork and to decide whether or not it was acceptable. Before the tribunal had a chance to do so, however, the VAT lawyers halted the proceedings and appealed the question of the tribunal's authority to the High Court.

With NFSE funds, the fight continued. The High Court said the VAT man had the final word and there was no appeal, but a few months later the Appeal Court overturned this decision. Eventually, in 1980, the case came to the House of Lords, Britain's highest court, which in turn overruled the Appeal Court and found for the VAT men.

Joe lost, but his efforts were not entirely in vain. The obvious injustice of the situation had attracted much press and parliamentary attention. And within the year, Parliament amended the VAT legislation to give more authority on VAT matters to local tribunals and less to VAT officers. So while small-business owners are still subject to the VAT, there is likely to be less injustice in its administration.

The NFSE's files bulge with hundreds of such cases on a bewildering number of topics. Some additional examples:

David Prigmore, a demolition contractor, lives near Bedford. Before he can do a day's work, he must have 16 different licenses, registrations, certificates, or permits. The first five are required because he operates a lorry and the next four because he is in the building industry. Since he extends credit, he needs two credit licenses. Then there are his VAT registration, national insurance card, business-name registration, and two types of planning permits (one for his yard and office and one for each job he tackles). Total: four certificates, five registrations, and seven licenses—none of which has anything to do with his ability to demolish or dismantle dangerous structures!

Barrie Tinker owned a tiny cafe on Bodmin Moor. Over a single year it had lost £3,369, so in the spring of 1981 Barrie decided to close it down. His sole employee, Jean Webber, was very upset. She liked her job, and in a remote area like Bodmin, with already high unemployment, she would be unemployed for the foreseeable future. However, she had an idea. Prime Minister Thatcher and Mr. Tebbit, the Employment Secretary, were forever telling people to "price yourself into a job." So Jean went to Mr. Tinker and offered to take a

wage cut sufficient to allow the business to stay open. He agreed to her plan, not realizing that it was illegal. Under legislation first introduced by Winston Churchill in the early '20s, about 20 "wages councils" had been established to set minimum terms and conditions for some 2.5 million employees in industries dominated by small firms with little or no trade-union presence.

Jean and Barrie's agreement was discovered by the authorities, and Barrie was prosecuted by the Wages Inspectorate. Fortunately, however, he appeared before sympathetic magistrates who imposed the minimum possible fine and ordered him to pay Jean the legal minimum wage for only one week (thereby, in essence, leaving any future arrangements entirely up to Barrie and Jean).

Then there was the Liverpool pub owner, James Shinner, who ran The Sportsman. In this case, the VAT men caused their mischief by using a method of determining Shinner's turnover that is both inaccurate and all-too-common in the case of pubs and restaurants. As with Bill Bedward above, they started by making secret visits. Their main concern was the lunches he served as a sideline. Two meals were available: chicken and chips, or scampi and chips, both with peas.

From their visits, the VAT officers determined that 60 percent of the patrons ordered chicken and 40 percent scampi. They also discovered by lunching at The Sportsman several times that there were 30 chips in a typical portion, that a typical chip was 2½ by ¼ by ¼ inches, and that a typical portion of peas numbered 70. They knew the prices of the respective dishes and, from the accounts, the total tonnage of potatoes and amount of peas purchased in a year.

All they needed to do now was to work out the weight of a typical portion of chips. With this, they could calculate the total number of such servings and, from this figure, the turnover of the food side of the business. They could then presumably double check by dividing the total number of peas purchased by 70!

Returning from the pub one day, the VAT officers purchased a bag of potatoes and a potato peeler. In their office they cut 30 chips of the appropriate size, weighed them, and got busy with the calculators.

Let me illustrate. Say the portion of chips prepared by the VAT officers weighed 4 ounces and the pub had bought one ton of potatoes. The calculators showed 8,960 portions; 5,376 (60 percent) with chicken and 3,584 (40 percent) with scampi. If the chicken dish cost £1 and the scampi £1.50, then the turnover must equal £10,742.

On the basis of this exercise, the tax authorities asked Shinner for an extra £746.93 in VAT. Shinner appealed and took his case to the VAT tribunal. The tribunal selected 30 of his chips at random and found that they weighed not 4 ounces but 8 ounces. The VAT officers' whole case against Shinner had been built up like a pyramid on one figure. Fortunately, the cornerstone was rotten and the whole structure came tumbling down.

Many, if not the vast majority, of the problems Britain's small-business owners face are caused by government interference. The same could probably be said of American proprietors of small businesses. Such interference is of itself bad enough; but matters are made even worse by the fact that the politicians and bureaucrats who enact and enforce the regulations are, for the most part, completely and utterly ignorant of what it is like to operate a small business and ignorant of the sort of people who do so.

In the United Kingdom, small businesses are run, on the whole, by people who are very good at doing one thing, say plumbing or book binding, but are not necessarily competent to deal with paperwork and handle complex rules and regulations. Educational statistics show them to have far less formal education than their employed counterparts. They may be very bright and very good at their jobs, but that is not the same thing necessarily as being good at filling in forms, keeping spotless records, and so on. An illiterate employed bricklayer can go through life without any trouble from the authorities, but an illiterate self-employed bricklayer soon ends up in trouble.

On some issues, British small-business regulations seem to be more draconian than those in the United States, and on others the American laws seem more damaging. Product liability is certainly more of a problem in the United States. Martyn Hopper, chief lobbyist in Sacramento for the National Federation of Independent Businesses (NFIB), tells, for example, about a lady who put her wet cat in a microwave oven to dry it. The cat exploded, the lady sued, and the microwave manufacturer lost! On the other hand, British employment laws on matters such as redundancy payments and unfair-dismissal compensation are more excessive than anything I can find in the States.

The American small-business community seems better organized to defend itself and to promote the conditions necessary for enterprise. Take the NFIB. Its level of funding, its sophisticated lobbying and propaganda, and the extent and impact of its work exceed those of its UK counterpart, the NFSE, by a long way. The sole area where the NFIB is perhaps not as advanced is that of legal protection for its members. For several years now, the NFSE has insured every single one of its members for professional costs in fighting VAT and Inland Revenue investigations and employment, health, and safety cases.

As in America, Britain's self-employed and small-business proprietors are often depicted as tax-fiddling, slave-driving, consumer-swindling, profit-raking scrooges. That politicians and bureaucrats do not live with the same degree of ignominy is an unfortunate circumstance—on both sides of the Atlantic. ◼

John Blundell is director of public affairs at the Institute for Humane Studies in Menlo Park, California.

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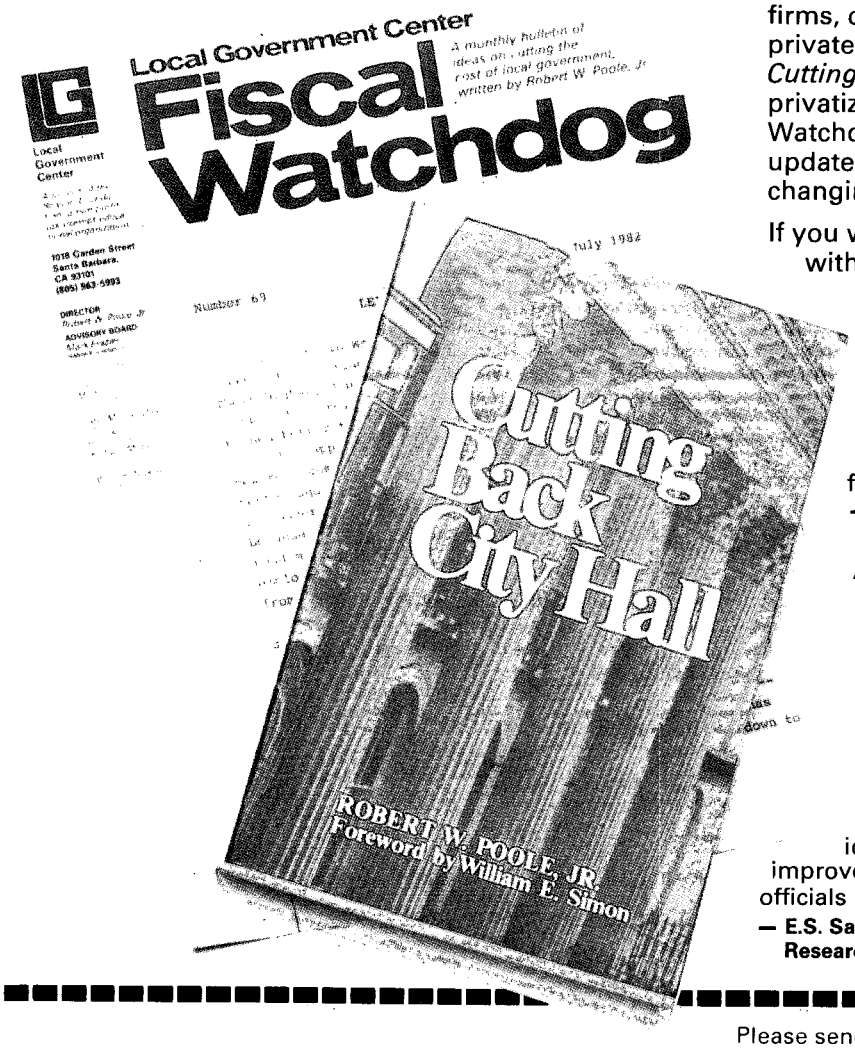

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VIEWPOINT

Freedom's Fair Weather Friends

BY TOM BETHELL

In the aftermath of the Grenada liberation—"invasion," the networks called it—one sensed that the news media slipped in public esteem because they kicked up such a fuss about being excluded from the military operation. More of the public than not supported the Reagan administration in this decision, which mimicked Prime Minister Thatcher's restriction of the press during the Falklands War. As Irving Kristol said in the *Wall Street Journal*, "It is generally advisable to have one's troops confront only one enemy at a time." If *New York Times* editors want to know why their reporters were initially excluded from Grenada, they should take a look at their own editorial page some time.

I know that some of my conservative friends are pleased with this increased public skepticism about the press. (I gather that both CBS News and the *Washington Post* received a lot of critical mail, post-Grenada.) Nevertheless, I would urge those who are fed up with the press to proceed with circumspection in this touchy and important area. Because the press is increasingly unpopular, there is bound to be increasing sentiment to bring it to heel in coercive ways. Some well-known New Right figures have already shown a fondness for media regulation by arguing that the Fairness Doctrine (applicable to radio and TV only) should not be rescinded, as has been proposed.

The twist I want to add is that many on the liberal left, now occupying influential positions within the media establishment, are not particularly enthusiastic about an unregulated press either, their frequent brandishing of the First Amendment notwithstanding. Exhibit A might well be Ben Bagdikian's recent book, *The Media Monopoly*, which calls for the breakup of media companies in much the same way that the Federal Trade Commission tried (unsuccessfully) to break up the cereal companies. An alumnus of the *Washington Post*, Bagdikian is not some fringe figure. A book reviewer in the *Washington Journalism Review* identified him as "this nation's best press critic."

Many in the news media today enjoy the illusion of being advocates of press freedom because their main critics are the same New Right figures who like the Fairness Doctrine. In defending against the New Right, the liberal left appears to be defending the principle of an unregulated press, when in fact it is defending the current reality of liberal control of press content. If the liberals ever begin to suspect that they are losing this control in influential places (currently maintained by peer pressure more than anything else), I believe they will not hesitate to invoke government intervention to shore up their sagging position.

Here is one rather dismaying illustration of this point. Recently I addressed a conference of well-known pollsters and journalists—the people who do the polls for the main newspapers and networks and those who write the stories based on these polls. After speaking—fairly critically of polls in general—I stayed on for the next session, which indeed was interesting. It turns out that pollsters *and* media are greatly exercised about the use of phone-in polls by ABC-TV. (Normally, pollsters call you.) After the Grenada operation, for example, *Nightline* conducted such a poll, and it measured public sentiment in favor of Reagan's action by a margin of eight to one.

The polling and media folk charge that these polls are not "scientific." (Those who phone in are "self-selecting," and they have to pay 50 cents for the call.) But I think there's something else. I believe the pollsters see their control of the response sample, the questions, thence the answers—and ultimately of public opinion itself—slipping out of their grasp.

And here's something else about these phone-in polls. The public opinion that they purport to measure is consistently to the right of that elicited by the professional pollsters, with their "scientific" samples and carefully worded questions—questions that in 1980, for example, represented the American people as being hostile to tax cuts.

Anyway, it became clear at the conference that phone-in polls have a number of *media* people unhappy, too, not just the pollsters (who understandably don't want to lose "market share" to new competitors). A *New York Times* reporter quite openly suggested that one of the ways in which to bring pressure to bear on ABC would be for the pollsters to sue for equal time under the Fairness Doctrine every time ABC does a phone-in poll. Not much enthusiasm for an unregulated news media from *that* corner of the press.

My point is a conventional one but needs to be stressed. Segments of the US press have developed markedly anti-American tendencies, and as a result the press is increasingly unpopular. The liberal left will favor press freedom as long as they control its content, but not a moment longer. Elements of the New Right leadership would like to muzzle the press right now. So the constituency for an unregulated press may be shakier than we think.

A few days after the US operation in Grenada, a Reuters story told of a political prisoner, Leslie Pierre, whom US marines had freed. He had been in jail for two years, but now he was hoping to "reopen the *Grenadian Voice*, a newspaper he published for two issues in 1981 before his arrest." On the same day, our media heroes were howling that now we were no better than the Soviets in Afghanistan.

Tom Bethell is a free-lance writer, a contributing editor of Washington Monthly, *and a columnist for* National Review.

ILLUSTRATION BY SUSAN SALLADÉ

SPOTLIGHT

Enterprising Star Seeker

BY PATRICK COX

Until December 1982, Philip Salin was president of Starstruck, Inc., a fast-growing space-transportation firm that was started in 1981 by Salin, Gayle Pergamit (to whom he is married), and a handful of other associates. The venture was, in part, the culmination of ideas Salin had been developing for some time.

As a teenager, Salin had become interested in the ideas of liberty through the controversial and challenging work of individualist science-fiction writers like Robert Heinlein and Poul Anderson. In 1967, he entered UCLA to study economics and music. While there, he started reading philosophical works—especially those dealing with questions of knowledge—including the writings of Ayn Rand, Karl Popper, Michael Polanyi, and Friedrich Hayek. These led Salin to a personal belief that academic theories, if they are true, ought to be of some use in the real world.

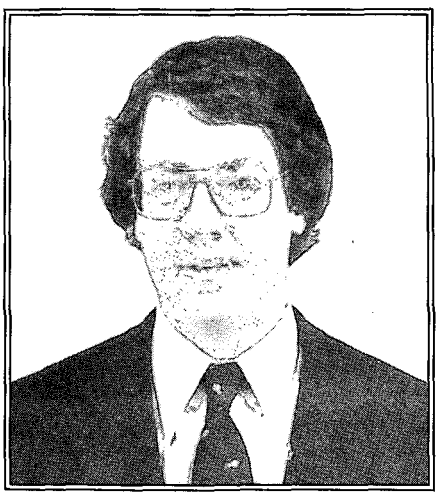
When Salin graduated from UCLA in 1971, he moved back to the San Francisco area, where he was raised. After stints at various jobs, he went to work at Systems Applications, where he contributed to a study of the potential impact of competition on the phone industry—at a time when it was still illegal for non-phone companies to sell phones and when there was no such thing as competing long-distance services.

In that 1975 study, Salin predicted that long-distance rates would go down and local rates would go up with deregulation. Though many in the phone industry reacted to the study with ridicule and outrage, AT&T admitted the study was valid—and used it as justification for continued regulation. Salin now beams about the episode, because "it was the first time that [AT&T] ever admitted that they priced above cost."

What disturbed Salin about the phone-study experience was his discovery that much economic theory—such as the theory of natural monopoly—seemed to always support the status quo. But, influenced by the Austrian School theory of the inefficiency of planned economies and industries, Salin decided to examine "natural monopoly" industries for entrepreneurial opportunities.

In order to prepare for profiting from those opportunities, Salin went back to school in 1977, at Stanford, to work on an MBA. There, he developed his own theory of cost that was unlike any of the work he had been exposed to.

"The old theory [of cost] is based on figuring out and getting close to 'natural cost,' " Salin says, "but I see cost as a measure of ignorance. I'm interested in how to *lower* costs. The Austrian insight is that any industry run as a planned economy for any time should be fertile ground for an entrepreneur."



PHILIP SALIN

While Salin and Pergamit were both students at Stanford, they happened to attend a seminar on space colonization. The subject interested them, but they found the speakers and attendants to be fundamentally naive about economics and the real business world. So Salin and Pergamit cofounded the Stanford Center for Space Development, a student group for people interested in learning about space. The center brought in lecturers, and as Salin and Pergamit followed the space industry, they discovered that most space technology was developed for the military. Salin grins as he recounts this realization and says, "We found the classic test case for the theories I had been studying and developing [about entrepreneurial opportunities in a planned industry]."

Eager to become an entrepreneur, Salin dropped out of a Ph.D. program that he had entered at Stanford. And in 1980, he, Pergamit, and four other people decided to explore the possibility of developing space-transportation services—such as launching satellites into orbit and ferrying supplies to space stations—in competition with various national-government enterprises (such as NASA).

Salin, Pergamit, and one other partner eventually pulled out of that first venture and started another. With Bevin McKinney, a naval architect who had taught himself rocketry, on board to supervise technical development of the rocket, the group formed Arc Technologies (whose name, for copyright reasons, was later changed to Starstruck).

The firm concluded that the demand for space transportation had been generally underestimated. Salin and his colleagues determined that they could provide space-transportation services at costs 50 percent—or even 75 percent—below those of the various government providers.

"We had two goals—to do it and make money at it and to prove that others could do it," says Salin. Starstruck has not yet developed its services to a marketable point; the first suborbital test flight of its Dolphin rocket is expected in the near future. And Salin has not made money at the enterprise. But the venture has helped pave the way for other space-transportation businesses (see "Further & More," Oct.).

Now that the business and the industry have been established, Salin and Pergamit have started looking around for other entrepreneurial opportunities. In December 1982, Salin and the rest of Starstruck's founding team hired Mike Scott, former president and CEO of Apple Computers, to replace Salin as head of Starstruck, which now has 50 full-time employees, including top executives and engineers hired away from other firms.

Having resigned his post at Starstruck, Salin now is enjoying a retirement that has him working as a consultant to the firm. But his connections to the business are loosening. He won't say what he's getting into next, but he admits that several areas interest him. I think I'm going to keep track of Philip Salin.

Patrick Cox is a frequent guest columnist for USA Today *and public affairs director of the Pacific Institute for Public Policy Research.*

MONEY

Some of Everything for '84

BY STEVEN K. BECKNER

It's a strange world we live in—a world in which, for instance, it has become cause for rejoicing in many quarters that our incipient economic recovery is slowing down. When the real rate of growth in the gross national product (GNP) slowed from 9.7 percent in the second quarter of 1983 to 7.7 percent in the third, many economists and government officials breathed an uncharacteristic sigh of relief. In November, sharp drops in housing starts occasioned more of this curious celebration. "Whew," economists said. "Thank goodness the economy isn't growing so fast."

After one of the longest and deepest recessions since World War II, you might think that everyone would be happy to just let her rip. But no. Indeed, the Federal Reserve avowedly *set out* to slow the recovery. And evidently it succeeded. Most forecasts for economic growth for 1984 are in the 4-5 percent range.

The reason for this perverse economic attitude, of course, is fear of inflation. And the fear is justified. The kind of monetary expansion permitted by the Federal Reserve from August 1982 through May 1983 to get the economy growing was, and to some extent remains, a very real inflationary time bomb.

Slowly, however, the tide of opinion seems to be shifting back toward concern about setting off another recession. The Reagan administration has loudly voiced its opinion that the Federal Reserve has become too tight. The danger is that, in responding to election-year political pressure, the Fed will overreact and return to excessive money creation.

As it is, monetary policy has probably been just about right—for once. The Fed's monetary aggregates were, in the final quarter of 1983, within a none-too-restrictive 5-9 percent target growth range. Looking at it from a longer-term perspective, both M1 (currency in circulation plus checking deposits) and the monetary base (cash plus bank reserves) had grown nearly 10 percent over the one-year period ending in mid-November. M2, a broader measure including savings and time deposits, had grown even more.

In the latter part of that year, the money supply was growing at 5 percent or less. If the Fed sustains that rate, there is some hope of maintaining the low (3-4 percent) inflation rate without damaging the economy too badly.

Unfortunately, there is a high likelihood that the Fed will veer from this moderate course because of (you guessed it) the budget deficit, which is expected to remain at least $185 billion next year even with the recovery-induced increases in revenues. The deficit will probably continue to absorb at least 75 percent of net national savings. Treasury financing will increasingly clash with private credit demands as the recovery matures. Long-term capital projects in particular will suffer, as indeed they have been neglected for some time.

Ironically, a recurrence of inflation may not unduly damage the stock market.

Lawrence Kudlow, the former associate director of the Office of Management and Budget for Economic Policy, who now heads up an economic consulting firm, says that the budget deficit presents the Fed with a monetary policy choice "between bad and worse." Either "low money growth to fight inflation will clash with heavy borrowing, keeping real interest rates high and real growth low," says Kudlow, "or loose money to accommodate the deficits and produce faster growth will reignite inflation, with a flight from dollar assets and a financial-market crisis."

The Fed's choice, most likely, will be to risk inflation in an attempt to forestall another recession. And traditionally, the Fed does inflate during election years.

What does this mean for investors? It probably will mean that those good yields on money-market accounts and Treasury bills will diminish even if interest rates rise somewhat. The real interest-rate premium cannot remain as high as it is.

That means that the dollar, which will also be increasingly buffeted by soaring trade deficits, will (finally) fall dramatically. It also means good news for precious metals. The November fall of gold and silver to under $380 and $8.50 per ounce, respectively, was probably the last bit sell-off and probably the last time we will ever see those metals so low—before the bull trend takes hold. Some analysts see precious metals at twice those prices within a year's time.

Ironically, a recurrence of inflation may not unduly damage the stock market. So long as the recovery continues, the bull market on Wall Street could continue.

Louis Rukeyser, host of the Public Television System's *Wall Street Week*, sees inflation coming back with certainty. Nevertheless, he forecasts a strong economy and a strong stock market for the remainder of the decade.

"The rich people of 1993 are buying stocks in 1983," Rukeyser told me in a recent interview. Despite the huge run-up in stock prices that has already taken place over the past year, he thinks "we're still in the early stages of an historic bull market."

"To succeed in investing you don't have to get in at the bottom and get out at the top," he told me. "You just have to determine whether we're closer to the basement or to the roof." His conclusion is that "we're no longer in the sub-basement, but we're still on the ground floor."

Although it doesn't seem plausible that stocks and metals should rise together, there is precedent for it. At any rate, it's wise to carry a balanced portfolio and be prepared for either to move.

Steve Beckner is a financial reporter and columnist for the Washington Times *and the author of* The Hard Money Book.

arts & letters

MOVIES

Reviewed by John Hospers

Streamers

Streamers (parachutes that won't open) was a Broadway play, then a television drama, and now Robert Altman has made it into a film. Set entirely in an army boot camp in Virginia, it still has the trappings of the original stage play.

Boot camp blues: Michael Wright as the angry outsider Carlyle in STREAMERS.

Whether as theater or as film, it is a drama of raw power and concentrated emotion. It is set in the time of the Vietnam war but is not at all about war; it is about the conflicting emotions of men, until recently strangers to one another, who are thrown together in close proximity. Fear of death, fear of homosexual impulses, fear of confrontation with each other and their own deepest feelings, combine to produce an excruciatingly intense drama.

The performances, by a cast of unknowns, are superb. Best of all perhaps is that of George Dzunda as the Vietnam-weary officer. When he appeared in *The Deer Hunter*, for a few crucial moments the fate of the entire film was in his hands: at the end of the film, tears streaming down his face after the funeral, he prepared breakfast for the grief-stricken survivors and, as if to deflect their attention, started to hum "God Bless America," whereupon others took up the tune until everyone joined in. It was a tremendous chance to take, the chances being that coming where it did it would sound false and ruin the climax of the film, but thanks to his performance the end of the film was brilliant. He enacts a similar scene toward the end of *Streamers*, an unusually difficult and delicate thing to bring off, but he does it with extraordinary ability.

The film, however, is so harrowing that it could hardly be called entertainment, and it will certainly not suit everyone's taste.

Never Cry Wolf

Wolves are still perceived as the enemies of man, as vicious predators. The literature is full of myths about attacks on man by wolves—Red Riding Hood and the wolf, Saki's famous story about wolves' attacks, and so on. One result of man's tragic misperception of wolves is that they have been almost wiped out on the American mainland.

Actually, wolves are among the most highly evolved species in the world. Their complex system of signals, their manner of dividing up territories, their code of etiquette in the training of their young, and their relations with other animals, all marvels of complexity and utility, have been the subject of numerous documentaries, notably *Wolves and Wolf-Men.*

Now from Disney Productions comes a full-length film, *Never Cry Wolf*, filmed over a year's span of time in the wilds of Alaska. It illustrates another facet of the life of wolves, amidst the most stunning Arctic scenery. A man is sent to Alaska to test the theory that the wolf is responsible for the depletion of caribou herds. As things turn out, it is man and not the wolf who is responsible for the slaughter of the caribou—the wolf lives largely on small rodents. But between the landing in the Alaskan wilderness and the final proof of the truth about wolves, there is a remarkable series of incidents, with a fascinating narrative, a serious purpose, and a pervasive sense of humor, all of which make the film richly informative and fascinating to watch. For anyone who cares about animals or about scenic beauty, this is one of the most rewarding films of this or any other year.

Rumble Fish

Compared to most contemporary films about the problems of youth, *Rumble Fish* is profound and disturbing. It concerns the problem of growing up in a city (Tulsa), with no parents worthy of the name, no money, nothing to do, wondering how to spend each day that comes along. It is a saga of alienated youth, which makes most youth-oriented films superficial and fatuous by comparison.

Brothers: Matt Dillon and Mickey Rourke reminisce about better times in Francis Ford Coppola's RUMBLE FISH.

From another point of view, however, a person could well say that the characters largely deserve their fate. People have come out of the slums before and made their lives succeed; these show no motivation at all in that direction—neither the main character (Mat Dillon) nor his ex-motorcycle champion brother (Mickey Rourke).

With whichever attitude one comes to the film, it seems clear that for director Francis Ford Coppola the art (some would say artiness) is more important

than the story. Mists constantly swirl about the scene; the streets are always wet, the sunsets are always lucidly dramatic. But then, the film is not an attempt at cinematic realism. It is a vision, presumably of life as seen from a specific point of view, in which the physical universe is imbued with the tortuous conflicts of the characters, much as the rocks appear agonized and tormented in El Greco's painting "Christ in Gethsemane." To criticize the film for not abiding by the standard of realism is to miss entirely what Coppola was trying to do.

But not everyone who sees what he was trying to do will like it. There is not much by way of overt incident in the film; it is highly atmospheric, and this is something one must absorb through one's pores slowly and gradually. Those interested only in what happens next should accordingly skip this one.

Beyond the Limit

Beyond the Limit is a film adaptation of Graham Greene's novel *The Honorary Consul.* It is a fairly accurate rendition of the bare bones of the novel (except for the fortunate omission of the physician's mother). But some of the sharp lines of the novel have been lost, owing to the familiar tendency among screen writers, who already know the plot well, to assume that the viewer who hasn't read the book is equally familiar with it. So incidents in the book that contain rapier-sharp thrusts tend to be blunted in the film. Moreover, the agonizing sense of moral ambiguity that pervades Greene's work is largely lost in the film: the idealistic young physician sleeps with his friend the consul's wife; the antigovernment Paraguayan guerrillas have deceived the doctor into serving them by lying to him about his father's fate; the doctor thinks his first duty is to save lives, no matter whose, and thus remains apolitical but is forced by the situation in Argentina to take sides, a moral decision for which he pays heavily; and so on.

Michael Caine as the consul and Richard Gere as the doctor give their best to their roles. But if some of the moral dilemmas had been fleshed out more clearly, the film would have been an eminently worthy one instead of merely adequate.

John Hospers is the author of Understanding the Arts. *He teaches philosophy at the University of Southern California and is the editor of the* Monist.

THEATER

Secrets of the Heart

By David Brudnoy

There is a theater of, if you will, the weird sisters or the weird family. George S. Kaufman had a knack for it, and now and again somebody comes along with a sense of the fineness of that line separating the weird sisters from the dipsy-doodle sisters, the strange but engaging family from the deliberately nutsy family. You may find an evening's entertainment by the latter a kind of exercise in tolerance, but you'll likely find it a strain. With the cleverly written and engagingly acted weird sisters, however, you'll have a ball.

You will, to be specific, have a ball with the three MaGrath sisters in Beth Henley's wonderful *Crimes of the Heart.* It is currently on national tour after copping a Pulitzer in 1981 and enjoying a lengthy and profitable run in New York City.

We meet the sisters first in the form of Lenny (Caryn West), who is a spinster now suffering through the very day of her 30th birthday. Lenny lives with and tends Old Granddaddy MaGrath, who raised her and her sisters after their daddy absconded and their mother hanged herself, along with an old yellow cat.

Lenny keeps a neat house in Hazelhurst, Mississippi, and frets. She has raised fretting to the finest of arts: she is neither a southern incarnation of the yenta as gentile (she doesn't oppress others, she just agonizes more than her share), nor does she stand much chance of liberation. She is strongly rumored to have had a man once—one man, one episode—but something happened, and he's no longer around.

Crimes of the Heart portends many deep dark secrets. Most turn out to be medium grey, but they are secrets of the heart just the same. They are secrets in the modern South, not Southern Gothic secrets, however much some reviewers want to shove Henley's play into a niche it doesn't fit. This is a piece that resists neat pigeon-holing, as the three MaGrath sisters resist easy analysis.

Medium-grey secrets: Caryn West, Cyd Quilling, and Kathy Danzer (left to right) play the weird MaGrath sisters in CRIMES OF THE HEART.

The sisters have a cousin, Chick, who is a paragon of overweight rectitude, recalling how she almost missed getting into the ladies' social club because of Meg (Kathy Danzer), who, to hear Chick tell it, was the Scarlet Woman before Hester Prynne. It seems Meg was a mite quicker into the world of the liberated woman than most of the proper young ladies of Hazelhurst, and of late she has been flopping, albeit gutsily, as a night-club singer in California. But Meg's on her way home to help baby sister Babe (Cyd Quilling), who has just been let out of jail. Babe has spent the night in the local keep because she shot her husband in the stomach—aimed for his heart but missed—since, as she puts it, she didn't like the way he looked.

Well, now, there's more to everybody's story than first appears. Meg's old beau is back and married to a north-

ern woman—"Poor Doc," says Meg; "his children are half *Yankee!*"—and Meg still has a yen for him. As for Babe, she has grown sufficiently bored with her husband that she has taken up with a local teenager, who happens, oh my, to be of a decidedly duskier hue than is considered acceptable in Hazelhurst, Mississippi.

Beth Henley has given three sisters the secrets of about five and hung upon their attractive but slight shoulders more baggage than this fine though not great play can truly bear. *Crimes of the Heart* can hardly be put to the trimming process now, its Pulitzer hovering above it and its lengthy run in New York presaging its success on tour; but the play simply cries out for simplifying. The cast, those mentioned and Dawn Dadiwick as Chick, Tom Stechschulte as Doc, and David Allison Carpenter as the eager young lawyer who would like very much to save Babe from prison and earn her gratitude in every which way, carry the play to success despite the top-heaviness of its plot. Here is ensemble acting at its rare best, a textbook example of the power of well-directed performances to whisk away many of the problems embedded in a play's script.

Crimes is more than a well-crafted comedy of modern manners and timeless virtues conflicting and coalescing. It's an exceptionally thoughtful exploration of the nature of sibling connection. These are three young women who need and very genuinely love each other but who drag resentments along with them into their basically warm and supportive sisterhood.

It is, moreover, a shrewd examination of the equation of duty and self-interest. Lenny has taken on her felt obligations as something of a cross between a hair-shirt and a housedress; she's ground down by it all, by her subservience to the needs of Old Granddaddy, but she's also grown comfy and safe in that role. After all, Lenny can send a suitor packing, saying to herself that he wouldn't want her because she has a shrunken ovary, though in time she learns that he loathes kids anyhow. But Lenny's balancing act with what she feels she must do and what she half suspects she would like to do is no more delicate and no more of a trap for her than is Meg's for her and Babe's for her.

Each of the sisters has come only some of the way toward freedom—meet the audience, ladies—and each has only half realized the fact. Meg thinks that she's washed up because her singing career is going nowhere; but what she thinks has done her in—her willfulness—has probably been her salvation, and what she thinks she has left behind—her small-town conventional roots—has tagged along and held her down.

Babe? Well, see Babe in action, and you'll know.

Crimes of the Heart is wiser than most plays and kinder by a country mile. It's a gentle nod to the weird sisters in us all, and it skirts quite nicely the dipsy-doodle sisters we all fear to become. It's a swell play for all but congenital grouches, and infants, and it's going the rounds now to brighten the winter stage.

Contributing Editor David Brudnoy reviews the arts for Boston radio station WRKO-AM and is film critic for the Tab group of newspapers. He is host of a nightly talk program on WRKO, writes regularly for the Boston Herald, *and syndicates a thrice-weekly newspaper column.*

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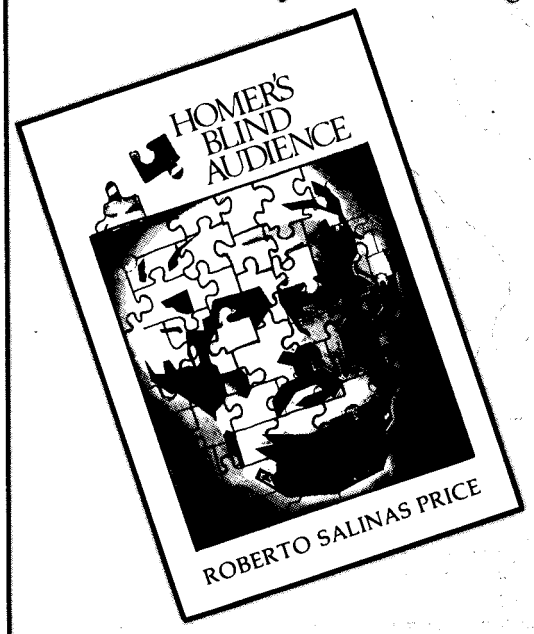
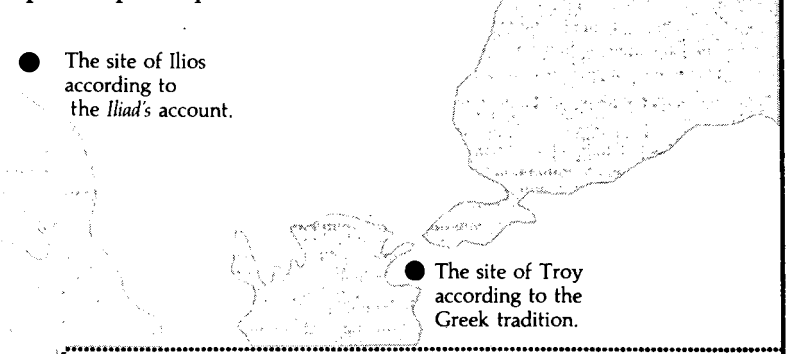
WAS HOMER FACT OR FICTION?

An essay on the *Iliad's* geographical prerequisites for the site of Ilios.





The author contests the traditional location of King Priam's Troy in Asia Minor where Heinrich Schliemann discovered ruins that answer to the citadel of Ilios. The real Troy, he says, is located in what is now modern Yugoslavia; he offers literary and archaeological evidence to that fact, and argues that Homer's Troy was transferred to Asia Minor by the Greeks for political reasons.

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BOOKS

Scientific Pathbreaker, Feminine Trailblazer

A Feeling for the Organism
By Evelyn Fox Keller
San Francisco: W. H. Freeman. 1983. 235 pp. $17.95.

Reviewed by William Havender

During high school in the early decades of this century, a young woman, in taking stock of her inclination for "doing the kinds of things"—like studying for a career—"that girls were not supposed to do," pondered how she could handle her "difference." Says that woman now,

I found that handling it in a way that other people would not appreciate, because it was not the standard conduct, might cause me great pain, but I would take the consequences. I would take the consequences for the sake of an activity that I knew would give me great pleasure. And I would do that regardless of the pain—not flaunting it, but as a decision that it was the only way I could keep my sanity, to follow that kind of regime. And I followed it straight through high school, and through college, through the graduate period, and subsequently. It was constant. Whatever the consequences, I had to go in that direction.

These resonant words might well have been spoken by one of the heroines of Ayn Rand's individualist novels. In fact, however, they were spoken by Barbara McClintock, one of the world's great geneticists. Her life—an uncommonly determined, purposeful, and accomplished life—is chronicled in Evelyn Fox Keller's book, *A Feeling for the Organism*, written and published before McClintock won the 1983 Nobel Prize in medicine for discoveries in the field of genetics that underlie much current research in genetic engineering and disease control. The science of genetics must seem rather esoteric to people who are not schooled in it, so the significance of McClintock's work may not be clear. She made her major contributions to cytogenetics in the years before World War II, when scientists were still working out the relation between the phenomena that were observable by means of genetic crosses and the behavior of the microscopically observable cellular bodies called chromosomes. Suffice it to say that McClintock's brilliant contributions at this time were seminal in establishing the chromosomal theory of inheritance. These include the first demonstration that genetic recombination is correlated to a physical exchange between chromosomes ("crossing over"), the discovery of ring chromosomes, the identification of the nucleolar organizer, and the elucidation of the cytology of the important experimental organism *Neurospora*.

She won a worldwide reputation but still found it difficult to obtain a university position, a circumstance not entirely unrelated to the fact that she was the

Barbara McClintock

first woman to seek to pursue a full-time career in genetic research. Still, she eventually secured a position at the Cold Spring Harbor Laboratory on Long Island's North Shore, where she remains to this day. And there she carried out the research that she regards as the most important of her career, namely her discovery in the late 1940s and early '50s of movable controlling elements that govern the turning on and off of genes in the corn plant. The significance of this pathbreaking discovery was largely overlooked at the time in the lemming-like rush of the profession to embrace the new glamor discipline of molecular biology, a rush given irresistible impetus by the working out of the structure of DNA in 1953 by James Watson and Francis Crick.

Only in the early '60s did one part of McClintock's newer work—her finding that the functioning of the genes that code for proteins can be switched on and off by genetic factors outside of the coding sequences—receive external validation in the Nobel prize-winning work of Jacques Monod and Francois Jacob with bacteria. And only in the '70s was another portion of McClintock's later work—her finding that these controlling elements can move around from place to place on the chromosomes—confirmed by the discovery of "insertion elements" in bacteria and of related phenomena in yeast and higher cells. These phenomena are currently under intense investigation for the promise they hold in understanding the coordinated growth and differentiation of tissues in living organisms and, in particular, in understanding that defect in coordinated growth known as cancer.

For those interested in learning painlessly about the history of genetic research in this century (which equals 20th-century physics in intellectual brilliance), this book is superb. For feminists, the book is to be recommended, too, as the well-told tale of yet another woman who pioneered in a man's world. And for individualists and supporters of free enterprise, the book provides a valuable illustration of the importance of a social order with many "niches" and diverse sources of funding, so that mavericks can survive even when the herds of the profession are moving elsewhere. For this reason, the ever-increasing centralization of research support in the biological sciences (currently, virtually all money for fundamental biological research comes from the federal government), with its inevitable tendency only to support work that is *conventionally* understandable, is much to be regretted. Only in a world where the sources of support are multiple, independent, and various can the true entrepreneurs of the intellect, like Barbara McClintock, flourish.

William Havender is a biologist and a freelance writer.

Clearing Deadwood

Present History
By Theodore Draper
New York: Random House. 1983. 426 pp. $19.95.

Reviewed by Laurence Beilenson

Nuclear war, the Western alliance, Vietnam, Henry Kissinger's diplomacy, and the Arab-Israeli wars—these are Theodore Draper's subjects in *Pres-*

ent History, a collection of articles written during the last 10 years by this writer and scholar of things political and historical. His aim, he says, is "to analyze present-day events historically [and] with convincing documentation and reasoned judgment."

Draper does not suffer fools, or even mistakes of the brightest, gladly. His acid pen is at its best in burning away the deadwood that erring commentators have heaped around his subjects. His own solutions, however, are flawed by his disregard or ignorance of essential facts and his failure to use historical patterns as a guide for present policy.

The virtue and the defect become equally evident in the articles on the related problems of nuclear war and the Western alliance. George F. Kennan's advocacy of parallel declarations by the United States and the Soviet Union promising to refrain from first use of nuclear weapons, Draper spears with a single sentence: "The awful truth is that [such declarations] have no reliability at all." And if, as (*Fate of the Earth*) Jonathan Schell proposes, "we have to 'reinvent the world' to control nuclear weapons, the chance of saving the human race must be somewhere near the vanishing point." To negotiations and treaties between the United States and the Soviet Union—praised as the best hope for nuclear peace by the Catholic bishops, the media, and the peace fronts—Draper also gives short shrift. Altogether, he blows a refreshingly cool breeze through the mass of hot air beclouding the subject.

What a letdown, then, when Draper urges "minimal deterrence," as suggested by Lord Solly Zuckerman. If, as Draper asserts, deterrence is our only means of averting the calamity of nuclear war, why not deter to the *maximum* extent possible? Where survival is at stake, monetary cost should become unimportant. And as the author apparently does not know, nuclear weapons are the cheapest segment of our military establishment. We spend only one-eighth of our defense budget to deter nuclear war; seven-eighths goes to prepare to fight conventional wars in faraway places.

Having properly ridiculed the notion that treaties are reliable, Draper proposes to halt the arms race by prohibiting research and development through a test-ban treaty. The Soviets could easily pursue secret research and development and then deploy the weapons either without tests or with tests on the eve of deployment. The awful fact, as Draper would say, is that we would have "to reinvent the world" to stop the advance in science and technology.

We shouldn't want to; it is precisely science and technology, with to-be-expected leaps, that offer the best chance of escaping from dependence on deterrence. Deterrence counts on the absence of accidents and the presence of rational conduct in a world where human error and irrational conduct have occurred regularly. To see that beneficence is not a reliable means of preventing nuclear war, it is not necessary to point to Leninist ideology and its exaltation of violence; the blood-stained pages of history bear witness enough. Real hope lies not in beneficence but in humankind's history of tremendous material betterment.

The geometric progress in science and technology makes probable the discovery of an effective active defense against nuclear weapons if the necessary resources and effort are devoted to the task. Impossible? Again, history teaches that conventional wisdom has derided as impossible many great inventions, including the airplane on the eve of its first flight in 1903. For the nation that put a man on the moon, active defense against nuclear weapons is feasible. Meanwhile, civil defense (whose only mention by Draper is: "a vast and wasteful program of 'civil defense' ") would save millions of American lives if nuclear war should

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come in spite of our every effort to prevent it.

After arguing the improbability that any Soviet-American nuclear exchange could be kept limited, a position with which I agree, Draper falls into the common snare of suggesting an increase in NATO's conventional forces as a remedy for our nuclear danger. Aside from the fact that Soviet doctrine asserts the necessity of the combined use of nuclear and conventional weapons from the outset of war, the Soviets would be fatuous to start a conventional war in Europe without a first strike against the United States, because of the great value the first blow confers and because of the fear that if they didn't strike first, we would. Nor would they be so foolish as to rely on a no-first-strike declaration by the US government.

Dwelling at length on the changed circumstances that have made NATO obsolete, and saying that French President Charles de Gaulle "knew what he was talking about," Draper characterizes the North American alliance as a "misalliance" and stresses the divergent interests pulling the United States and Europe apart. The appropriate resolution of this situation, which Draper never offers, is a phased American withdrawal and cancellation of the treaty pursuant to its terms, after giving Europe the nuclear knowledge to create its own effective nuclear deterrent. *A major reason why the nuclear sword of Damocles hangs over the United States is the American military presence in Europe.*

Draper devotes some 55,000 words to the Arab-Israeli wars; they are interesting and useful but devoid of a constructive remedy. I wish I knew one. The wry humor of Golda Meir illuminates some of the difficulties. To her dismay, as she said, she found that for her socialist friends in Europe, Arab oil was redder than Israeli blood. And when told the Israeli situation was desperate, she shrugged and smiled: "When hasn't it been?" For the United States, the applicable maxim may be: If you can't fix it, leave it alone.

Under various rubrics and with some detours, the rest of the book discusses the faults of containment. In mercilessly excoriating the mistakes of American statesmen about Vietnam, Draper finds the clue: "A good general assesses his own strengths as objectively as that of the enemy; he does not go into battle without taking into account what his own forces are capable of accomplishing and, in the particular case of the American people, what they are willing to fight for and at what cost."

Instead of pursuing this basic theme, however, Draper gets lost in demonstrating the many mistakes made by American statesmen. His view of the Cold War suffers from his failure to comprehend Lenin's blueprint for the protracted global triumph of communism with subversion as the preferred tool. This is the essential starting point of any plan to defeat Lenin's heirs. Where the cold warriors went wrong was in their assumption that we must contain at every point and ultimately by American military force. Sensibly, the American people do not want to spill American blood all over the globe fighting Soviet surrogates. To ask them to do so is, as Draper says, a grave misreading of the intangibles that are as much a part of the situation as the number of weapons on each side.

Theodore Draper

"The Soviet bloc and Soviet security system are not immune...from being reversed from within as well as from without." In this passage, Draper grasped the key; but instead of turning it, he let it slip from his hand. The substitute for containment is counterattack by another tool: subversion. The United States can point Lenin's preferred tool of subversion against Communist regimes without sending a single American soldier overseas. The long history of subversion, especially with Lenin's adaptation, weaves a pattern on which an American plan can be based. The United States can and should give the internal subversion of dissidents against Communist governments a helping push by truthful propaganda and openly announced aid in money and, when propitious, arms. Such foreign-aid-for-freedom would keep the Communist masters busy in their own backyards, with a consequent diversion from other pastures. In the end, such a course of action might well bring an overthrow at the center of the trouble, in the Soviet Union: another giant step to prevent nuclear war.

Draper's book lacks fairness. In gibing at "the domino theory," for example, he might have had the good grace to note that some of the dominoes have fallen. In addition, to a book of some 240,000 words dealing with present history, the publisher should have provided an index.

Despite my criticisms, Draper's sprightly prose is good reading, and there are nuggets of information scattered throughout the book. While his solutions seem wanting in wisdom, I ruefully acknowledge that my own are not espoused by any political party or by the foreign-policy establishment.

Laurence Beilenson, a lawyer, has for many years devoted himself to research and writing. His books include Survival and Peace in the Nuclear Age *and* The Treaty Trap.

Unlearned Lesson of the Politics of Education

The Troubled Crusade
By Diane Ravitch
New York: Basic Books.
1983. 384 pp. $19.95.

Reviewed by Eugenia Froedge Toma

I initially assumed from its title that *The Troubled Crusade* was just another book by an educator lamenting a lack of sufficient funds for public education. However, I was pleasantly surprised.

Diane Ravitch has written a book that examines the history of thought in public education in the United States since World War II. In doing this, she attempts to demonstrate that the public schools have served as the battleground for struggles fought in society as a whole. Whether it be concern about com-

munist infiltrators in the '50s, the racial problems and rebellion against authoritarian figures in the '60s, or the move toward equal opportunity and affirmative action in more recent times, the public schools have served as a locus for resolving the ills of society. In documenting these events and examining their effects on the public schools, *The Troubled Crusade* is excellent. It will serve as a significant source book for those interested in the post-World War II changes in public education.

Most of *The Troubled Crusade* is largely factual. The author discusses the various movements in public education with very little of her own judgment coming into play. While this method of presentation has the advantage of lending the book a scientific tone, it also leaves the reader with a slight sense of disappointment, as there is virtually no analysis of the effects of these various movements. Ravitch attempts to remedy this in the final chapter when she discusses the new politics of education.

This last chapter is perhaps the best and most important of the book. Up to this point, she has examined the growth of the federal government as an educational policymaker and financier but has done so by pointing out specific events and describing the environment that culminated in federal actions. Some of these events included the initiation of federal impact aid to compensate local school districts for providing education to students living on federal lands that are not taxable by the local governments; the funding of scientific programs following the launching of the Russian Sputnik; the passage of the Elementary and Secondary Education Acts in 1965 as part of the Johnson administration's efforts to eliminate poverty; and finally, the numerous activities of the years since then, such as bilingual education and programs for the handicapped.

Not until the final chapter does Ravitch point to the implications of these program changes. She argues that the increased federal funding and federal regulations have come at the expense of loss of authority on the part of individual schools and thus the parents and children of those schools.

To illustrate this loss of authority at the local level, she points to some revealing figures. The number of pages of federal legislation affecting education increased from 80 in 1964 to 360 in 1976. The actual number of federal regulations increased from 92 in 1965 to nearly 1,000 in 1977. The trend in federal court decisions affecting education was quite similar. There were 112 decisions between 1946 and 1956, 729 from 1956 to 1966, and then over 1,200 in the next four years. According to Ravitch, a major reason for this increased federal role after the mid-60s was the passage of Title IV of the Civil Rights Act of 1964, which empowered federal officials to withdraw funds from any program violating antidiscrimination laws and regulations. The ambiguity associated with defining violations served as the stepping

Diane Ravitch

stone for the entrance of the federal government both legislatively and judicially.

In reading *The Troubled Crusade* one is struck by the public's dissatisfaction with the public schools over the preceding four decades as well as today. At least since World War II, the cry by the public has been for a return to the "good old days." But on reflecting upon the events described here, one might conclude that those good old days in our system of public education have never existed. Ravitch makes a valid and extremely important point that the public's dissatisfaction has increased with the increasing shift of control to the state and federal governments. But even in the '40s educators in the public school system managed to bring about changes in the curriculum that parents disapproved.

The major weakness of this book is Ravitch's failure fully to develop this point and its implications. At the end of the book, she still has hope for the future of the public education system. She does not point out (and perhaps does not grasp) that the system's ability to perform is inherently poor. As long as the control of schooling is vested in the political arena, the ability to satisfy the consumers of education remains limited. To remain in office, politicians must make decisions that generate the greatest political support. Although voters as a whole may be interested in and concerned about public education, it is the educators who have the greater incentive to lobby on behalf of their particular interests. Consequently, the politicians find it in their own interest to respond to the educators rather than to the general consumer of education.

This weakness of democratic decision-making exists whether control rests in the local level or the state or federal level. As Ravitch correctly points out, however, its pernicious effects are diminished when control is local. The costs to an individual voter, or consumer of education, of expressing his dissatisfaction with decisions concerning public education are less when the size of the political group is smaller. In other words, the actions of a single individual are more likely to affect the outcome in voting on a smaller scale. For this reason, educators will have less power over political decisions made at the local level than when those decisions are made at the state and federal levels.

A final and crucial step in analyzing the problems of public schools is skipped completely by Ravitch: she does not question whether education should even be provided publicly. The advantages afforded by the private market in satisfying individual preferences for education are never mentioned. While it may be argued that a discussion of privatizing education lay beyond the scope of this book, it certainly deserves mention in any attempt to examine the troubles confronting the institution of education.

I closed this book with the feeling that Ravitch had *almost* gotten to the source of the problem. A final chapter on private alternatives would have made it complete.

Eugenia Froedge Toma is a professor in the Department of Economics at California State University, Northridge.

Altered Consciousness About Drugs

The Heroin Solution
By Arnold S. Trebach
New Haven, Conn.: Yale University Press. 1982. 331 pp. $9.95.

The Hardest Drug: Heroin and Public Policy
By John Kaplan
Chicago: University of Chicago Press. 1983. 247 pp. $20.00.

Reviewed by Jack Shafer

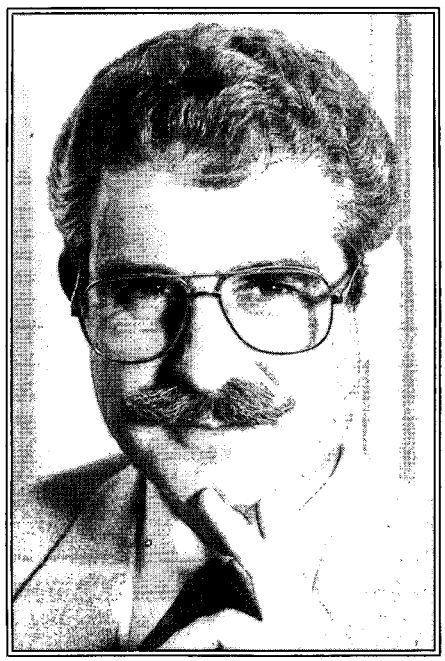
In 1972, in his influential book *The Natural Mind*, physician Andrew Weil offered a new way of looking at drugs and drug use. "The use of drugs to alter consciousness is nothing new," he wrote. "It has been a feature of human life in all places on the earth and in all ages of history." The ubiquity of drug use suggested to Weil that there is nothing particularly aberrant about it and no reason automatically to castigate drug users as sinners, criminals, deviants, or mentally and physically ill. For Weil, it appeared that the pursuit of an altered state of consciousness is a natural development. Framed in this context, the bliss of the meditator and the pothead were almost indistinguishable.

In the decade since *The Natural Mind* was published, the "new way" of looking at drugs does not seem to have taken hold. Misinformation and hysteria surround what passes for a drug debate in this country. That is why Arnold S. Trebach's *The Heroin Solution* (recently published in paperback) and John Kaplan's *The Hardest Drug* can only fill the heart of the serious student of drug policy with encouragement. Together these two books advance the scholarship of what has become the hardest drug for American society to come to grips with.

Trebach's tack is to rehabilitate the much-tarnished reputation of heroin. When first marketed in the 1890s, it was proclaimed a wonder drug. Later, with the passage of the Harrison Act of 1914, the "demonization" of heroin began, and eventually the drug was made medically and legally *verboten*. Doctors dispensing it and heroin users were carted off to jail, and the drug was driven into the underground, where it has remained to this day—feared and misunderstood.

Trebach's attempt to "exorcise the devil in heroin" is a rousing success. He documents how heroin has remained in the legal pharmacopoeia of doctors in foreign countries, most notably the United Kingdom. In that country doctors can prescribe heroin to habitual users (addicts) or to those suffering intractable pain. Trebach advocates the disengagement of lawmakers from what he argues is medical turf, although he does not advocate a complete repeal of drug laws.

Like Trebach, Kaplan is out to deflate a few heroin myths. In his exhaustive study we find that heroin withdrawal is rarely more painful than a case of the flu, that heroin use alone causes no organ damage, that it takes more than one taste of heroin to be "hooked" (often, it requires two weeks of thrice-daily doses to reach the plateau at which withdrawal symptoms occur if heroin use is ended). We also learn that most "addicts" mature out of heroin in their middle to late 30s. Kaplan agrees with Trebach that "our heroin problems would probably be fewer today had we begun some kind of opiate maintenance [like the British] at the time we passed the Harrison Act." But Kaplan fears to tread where even the cautious Trebach boldly marches. "Turning back the clock and starting from that point a second time is obviously impossible, so we must consider the costs and benefits of heroin maintenance in today's world."



Arnold Trebach

This retreat to cost and benefit analysis negates the power of the opening chapters of *The Hardest Drug*. Kaplan points to a number of reasons, such as crime, why heroin use should be curbed—but the link between crime and heroin is stronger in the minds of social scientists than it is on the street. He warns that one of the "costs" of free availability of heroin is a possible increase in its use—but since he has discounted the physical harm of heroin use, what "cost" can he be talking about? He fears a drop in social productivity—but if an individual chooses to experience heroin rather than a 40-hour workweek, whose business is that but his own?

Kaplan's survey of the social "costs" of heroin conveniently ignores the costs of heroin prohibition. As he acknowledges, enforcement of drug laws cannot eliminate drug use; it can only drive up the price of drugs. As those prices rise, users don't always lay off the stuff. In the case of heroin and, to a lesser degree, cocaine, higher drug prices encourage users to find ways to get more "bang per buck" out of their drug. This has resulted in the use of the needle and syringe for intravenous injection, which is physically dangerous. In markets in which heroin is not so dear—Vietnam in the late '60s and early '70s, Iran before the shah "banned" opium, or Hong Kong before a similar drug crackdown there—most users safely sniffed or smoked their opiates without doing any physical harm to themselves. Similarly, the high price of cocaine has led many users away from the relatively safe administration of cocaine through the nose, to the physically debilitating use of needles and free-base smoking. One could predict that if the authorities were as successful at banning alcohol as they are at banning heroin, most alcoholics would take their precious drug via a needle, too.

Another "cost" of heroin prohibition is the dangerous drug experimentation it precipitates. Like any other consumers, heroin users are willing to explore the use of substitutes when their product of choice vanishes. Heroin users have plundered the pharmacopoeia and performed wild experiments on their own bodies—sometimes with deadly results. In recent years, methadone diverted from methadone maintenance clinics has been at the root of as many drug deaths as heroin use. Heroin users have discovered that the prescription drug Talwin can be combined with the antihistamine Pyribenzamine to satisfy their habit. The trouble is, scores of people have dropped dead on it. Another mixture, called "loads," is made by combining the sleeping pill Dorieden and codeine. Making the

rounds as budget heroin, it too kills people. "Bathtub chemists" have gone to the literature and found the formulas for other heroin-like drugs. A group of drugs based on the well-known pain-killer fentanyl has been unleashed by clandestine chemists on the West Coast. A hundred times more potent than heroin, fentanyl has killed over 20 people by pure pharmacological overdose—something that rarely happens with heroin.

It's unfortunate that Kaplan is not ready to concede that heroin prohibition produces monumental costs such as these for individuals and society. Rather than cope with a drug that we are just beginning to understand, Kaplan would unwittingly have us battling ever more unpredictable "brews."

The publication of these two books—from academic presses, no less—marks a giant leap in heroin scholarship. Whatever relevant information on heroin is available in the hostile contemporary environment, it is collected here. These works by Kaplan and Trebach signify that the major points raised by Andrew Weil in 1972 are finally making it into the policy mainstream. Neither book delivers the alarmist and anecdotal testimony we have grown accustomed to hearing since the declaration of "war on drugs." Neither book damns drug users as "sick" or "criminal" or "sinful." That in itself is a great accomplishment. Weil's ideas regarding how people naturally experiment with consciousness have been adapted by both Kaplan and Trebach. Furthermore, both authors have integrated into their books Weil's tenet that the expectation, environment, and previous experience of users is as important as the substance being consumed.

When limited to the drug itself, both books shine. Trebach argues successfully for rehabilitating heroin as a potentially good medicine. While he avoids the subject of total drug-law repeal, he has favorably approached that position in interviews. Kaplan, alas, is too busy madly performing "cost-benefit" arithmetic to consider his own evidence. He has penned the most comprehensive interdisciplinary study of heroin yet written—the bibliography alone is worth the price. It's a shame that he does not recognize that living in a free society cannot be without costs and that the only valid balancing of costs and benefits is that done by individuals, not aspiring social engineers like himself.

Jack Shafer is managing editor of Inquiry *magazine.*

Avarice, Not Altruism

Economics of Income Redistribution
By Gordon Tullock
Hingham, Mass.: Kluwer-Nijhoff. 1983. 187 pp. $28.00.

Reviewed by Walter E. Williams

The difficult domestic problem for the United States is to somehow reduce the growth of government spending. The major growth sector of government spending at every level is the class of expenditures officially classified as transfer payments, or what has become known as income redistribution. Coping with some aspect of poverty—inadequate health care, housing, nutrition, etc.—is the usual justification for these payments.

Gordon Tullock's new book, *Economics of Income Redistribution*, sheds some new light on transfer payments. He concludes that, contrary to conventional wisdom, altruism may not fully explain our current level of transfers. His primary reason for suspicion is the fact that in the budget year of 1981, enough transfer money was spent so a family of four in the bottom 10 percent of the income distribution *could* have received $48,000 that year. Or, if we wanted to make the "safety net" larger, the bottom 20 percent *could* have received $24,000 for a family of four. Now we all know that poor people are not getting all that transfer money. So naturally we ask, who *is* getting all that money?

According to Tullock, "The bulk of the transfer goes to the politically influential and well-organized." The primary motivation behind income redistribution is simply that people want other people's money, and government provides the mechanism. *Economics of Income Redistribution* gives the reader a good rule of thumb to tell whether a program is designed to help poor people or somebody else. "This rule of thumb," according to Tullock, "is that if there is a means test," the program is designed to help the poor (that is, if people with income higher than the official poverty line are ineligible for the program). If the program has no means test, then it is not designed to help the poor even though it may do so to some extent.

It is significant, therefore, that such large income-transfer programs as medicare, social security, and education do not have a means test. And this is evidence, argues Tullock, of the desire of some people to get other people's money. According to Tullock, some people oppose the means test because the poor may be insulted. A more important reason is that the middle class will not vote for taxpayer-supported medical care, old age pensions, etc., if the benefits go *only* to the poor. But if the middle class view themselves as beneficiaries, they will vote larger amounts of money. Thus the push for expansion and universalization of transfer programs.

Then there is perverse income redistribution—the kind where lower-income people make transfers to higher-income people. Tax support of higher education falls into this category, which Tullock labels "regressive transfers." In higher education, for example, the average taxpayer subsidizes the education of people whose lifetime income is likely to be well above the average. As a condition of admission, colleges often require combined SAT scores of 900 plus (the national average is 893), and the student must be in the top 25 percent of his high school class. These requirements effectively weed out most of the poor. But, as Tullock points out, "The taxes that support this apparatus are general taxes which fall across the income structure." Of course, higher-income people pay more taxes, but the number of higher-income children in public-supported higher education is more peaked than the distribution of taxes.

There is another often-ignored class of transfers that Tullock discusses. These are transfers that appear in the form of economic regulatory activities such as zoning changes, tariffs and quotas, transportation regulations, and farm subsidies. In these transfer schemes, both the motivation and pattern conform to that found in income-transfer programs. That is, the beneficial effects are biased toward the more well-to-do. And the more well-to-do are motivated by the desire to have more, at others' expense.

Tullock has made a fine contribution to our understanding of income redistribution. However, in his admirable frankness about the motivation for income redistribution, he forgot a minor thought or two that I think could have fit nicely into the discussion.

The first is a debunking of the term *income redistribution* itself, which in my opinion contributes immensely to the demogoguery and confusion over the sources of income. "Income redistribution" suggests that out there is a distributor of dollars—a dollar dealer. The

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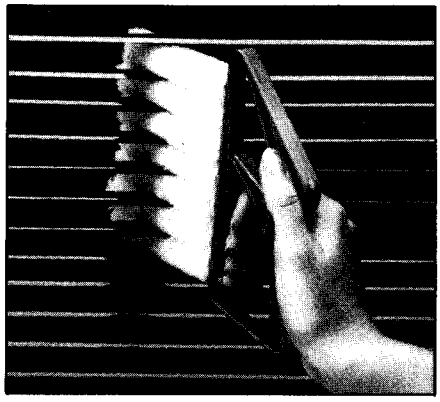
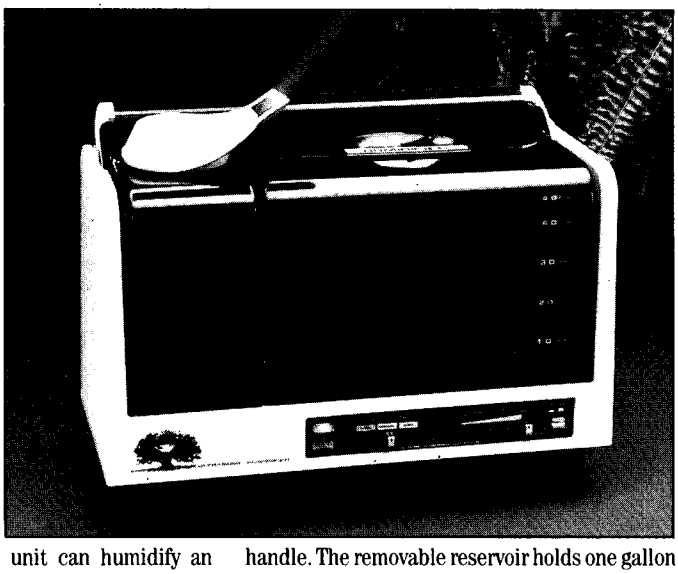
7-FINGERED BLIND CLEANER



It has taken a long time figuring out how to clean venetian blinds efficiently. Back in 1939 a patent was granted for a brush-like blind cleaner, but it suffered a fatal flaw — the nylon bristles simply spread the dirt around instead of picking it up. Later inventions worked better but mostly cleaned only one slat at a time, not much of an advance over no tool at all. Now a California designer has finally solved the problem convincingly with a simple hand-held tool that saves up to 80% of your cleaning time. It has 7 roller fingers, 4" long and covered with a synthetic lambswool that picks up and holds dust and dirt. Pull the trigger and the fingers spread enough to slip over the blind slats (6 mini-blind slats or 3 conventional 2" slats). Release the trigger and the slats are held firmly between the cleaning rollers. Then move the cleaner back and forth along the blind, release and grip the next set of slats. When soiled, the cleaning rollers can be removed and washed. These revolutionary blind cleaning tools cost **$9.00** ($1.95) #A787.

ULTRA-HUMIDIFIER

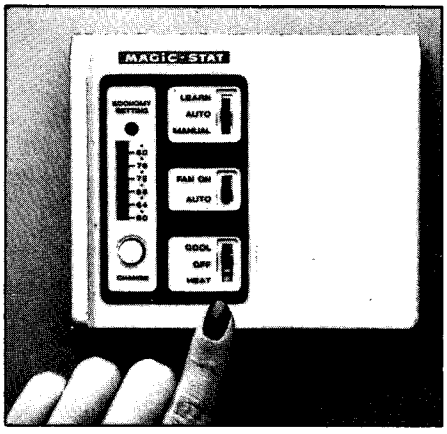


Here is a new approach to humidifying that is so revolutionary and inventive that it makes all other home humidifers obsolete. It's the ultra-sonic humidifier. We discovered it last fall in Japan and during home use last winter found its performance to be truly outstanding. It uses extremely high frequency sound waves to break up water into a fine mist that carries and diffuses exceptionally well. One tabletop unit can humidify an entire 1500 sq. ft. apartment or house. It is also ultra-safe — the vapor stream is cold (even though it looks like hot steam) so it is impossible to get a burn. It is ultra-quiet — virtually noiseless, unlike conventional humidifiers. It is ultra-portable — measures only 14" x 6" x 9", weighs under 12 lbs. and has a convenient carry handle. The removable reservoir holds one gallon of water, refillable at any sink and runs for 10-12 hours on a filling. This humidifier by Bionaire has a humidstat control (low, medium or high) and shuts off automatically when it reaches the desired humidity level. Emitting nozzle swivels 360° and the unit shuts off automatically when empty or tipped over. **$149.00** ($10.95) #A888.

EASY CHARGE

How would you like to recharge your car battery without ever opening the hood? Sound impossible? It's not, thanks to the Easy Charge, which takes the old idea of jumper cables and refines it to a new level of ease, convenience and safety. With traditional jumper cables you have to maneuver a second car fender-to-fender with the disabled car, open both hoods, and attach leads from battery to battery. The Easy Charge simplifies this process brilliantly by substituting connection from cigarette lighter to cigarette lighter. You just plug one end of the Easy Charge into the lighter of a running car, pass the 16' cord through both car windows and insert the other end in the lighter of the disabled car. After a few minutes' wait the battery is recharged sufficiently to restart the car. The Easy Charge is small enough to fit in the glove compartment. **$20.00** ($3.95) #A629. Two for **$37.00** ($3.95) #A6292.

THINKING THERMOSTAT



The basic method for reducing home heating costs is setback — turning down the thermostat at night and whenever you are out of the house for a few hours. The thinking man's thermostat — with a built-in microprocessor unit — lets you program the temperature you want and the time you want it, so the house is warm when you step out of bed. As for the "thinking," the unit senses the rate of heat loss for the house, so it turns on the furnace earlier on very cold mornings, later on warmer mornings. The program can accommodate 6 different temperature settings each day through a cycle of 7 days, so it is no problem to set up different schedules for workdays and weekends. Programming is simple — accomplished with a single button — but provides all the flexibility you need to tailor home heating/cooling to your particular schedule and lifestyle. Best of all, you can install it yourself in place of your present thermostat in about 10 minutes. No wiring to the furnace, just fasten existing thermostat wires to a color-coded connector panel. The thermostat works just as effectively with central air conditioning. **$79.00** ($3.95) #A855.

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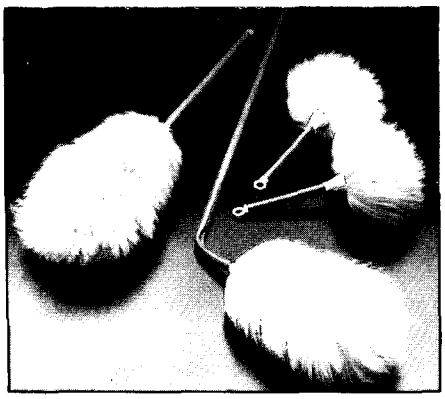
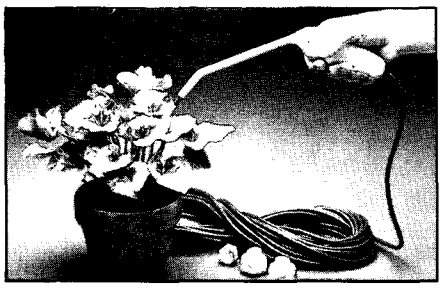


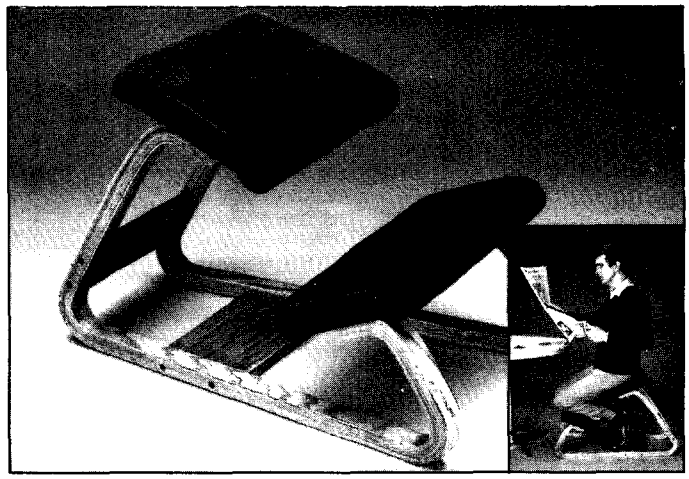
If we ever compile a book on *The Old Ways That Were Better Ways,* we will certainly include a chapter on lambswool dusters. On its own lambswool actually attracts and holds dust like a magnet. The static charge in the wool causes dust literally to leap off surfaces where it has accumulated, making these dusters just the thing for dusting bric-a-brac, china, crystal, pictures and other fragile items. The standard 27″ long duster costs **$7.00** ($1.95) #A780; the bent-handled model is **$8.00** ($1.95) #A781; two mini-dusters cost **$8.00** ($1.95) #A794. The entire group, a total of four dusters, is an exclusive *Tools for Living* offer and costs just **$16.00** ($2.95) #A783. Buying the group saves you $9.90, almost like getting one duster free!

WATERING WHIZ



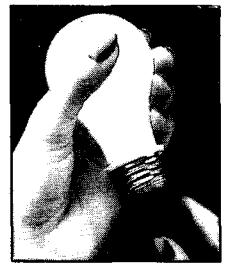
Now you can water all your plants in a single trip with this handy indoor garden hose. This 50′ vinyl hose comes with a set of four adaptors that readily attach to most indoor and outdoor faucets. From there you just take the water where you want it — an easy-control handle allows you to turn a splashless stream of water on and off as needed. There's a snap-in misting attachment, so after you water the roots you can spray the foliage. The kit costs **$11.00** ($1.95) #A681. Two for **$19.00** ($2.95) #A6812.

REINVENTING THE CHAIR

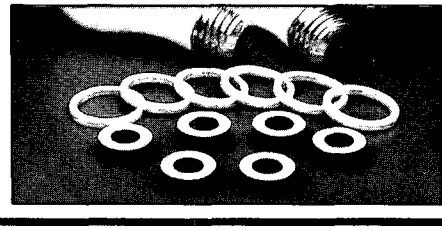


Conventional seating positions the body so the angle between torso and legs is 90° or less. This posture tilts the spine forward, puts pressure on the lower back, and cramps breathing and circulation. The Cloud Chair represents an entirely new concept of seating developed in cooperation with doctors and physical therapists. It redistributes body weight using the knees and lower legs so the back and upper body automatically straighten and find a relaxed position of perfect balance. The chair frame is oak laminate shaped by a "bentwood" process. The seat and knee rest are padded and upholstered in a neutral brown color. The chair positions you at the exact same height as a regular office or table chair and has been used successfully in homes and offices by people 4′6″ to 6′9″. It will improve your comfort, posture and the back strain associated with long periods of sitting in conventional chairs. **$90.00** ($9.95) #A925.

UL LIGHT BUTTON



They are familiar household conveniences now, the little light-wave rectifier buttons that attach to the bottom of light bulbs and extend their life 50 to 100 times, sparing you the trouble of bulb-changing for years at a stretch while you save a bundle in bulb-replacement costs. But the Zana Power Disc is the only light button available that is UL-listed, meaning it has survived nearly two years of strenuous independent laboratory testing and been certified safe for home and commercial use. It provides security along with savings, safe enough even for high-temperature recessed fixtures. We are offering 6 for **$16.00** ($2.95) #A964. The manufacturer provides a 5-year warranty.



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This oversize bag is an overwhelming success with photographers, artists, students, musicians, dancers, opera singers, nuns, poets, duck hunters, cyclists, plumbers, teachers, reporters and travelers...because it's a veritable labyrinth of roomy pockets. Made of waterproof canvas that wears like iron, the bookbag has an unusual zipper design that enables the bag to expand to double its normal width — to a full 8 inches. It also has two outer pockets in front and a large back pocket. An adjustable 2″ wide strap makes the burden easier. Choose grey #A483, brown #A484, blue #A569, black #A564 or red #A568. **$59.00** ($3.95).

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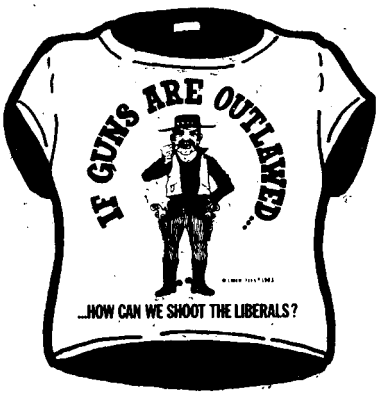

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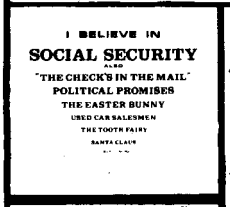

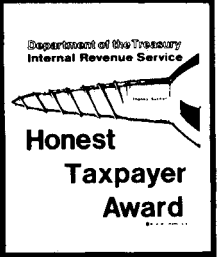

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reason that some people have fewer dollars than other people do is that the "dealer" is unfair—a sexist, a racist, or a multinationalist; whatever. Thus, to promote justice and equity, according to this view, there must be a *redealing* of the dollars, an income redistribution. Those with more money must relinquish their ill-gotten gains for the sake of equity.

In fact, however, most income results from productive efforts by individuals singly or in combination with others as partners or corporations. Different individuals wind up with different incomes in part reflecting differences in abilities and differences in consumer tastes. I earn less than Moses Malone because of private, independent decisions made by millions of people about whom they wish to watch play basketball. People who argue for income redistribution wish forcibly to cancel all those decisions.

Also, Tullock overlooked one motivation for transfers—the important make-me-whole motivation. For example, a man who pays $40,000 a year in taxes may ask, "What am I getting out of government that somebody who pays $1,000 doesn't get?" He may conclude that nothing adds up to the $39,000 difference. He may then call for special transfers and government services to justify his taxes, to make him whole. The classical economist Frédéric Bastiat characterized this activity as the contagion of legalized plunder.

Neither one of these minor suggestions or criticisms detracts from the strengths and insights of Tullock's book. I strongly recommend it as an excellent addition to one's domestic-policy bookshelf.

Walter Williams is a professor of economics at George Mason University and the author of The State Against Blacks.

Safety by Supply and Demand

Risk by Choice: Regulating Health and Safety in the Workplace
By W. Kip Viscusi
Cambridge, Mass: Harvard University Press. 1983. 200 pp. $18.50.

Reviewed by David R. Henderson

True or false? Companies make workplaces safe because if they don't, they could be fined by the Occupational Safety and Health Administration (OSHA).

True or false? American workers are generally ignorant of hazardous conditions at their work sites.

True or false? Congress passed the Occupational Safety and Health Act in response to an increase in hazards in America's workplaces in the 1960s.

If you answered "true" to any of these, then read this review. Better yet, read W. Kip Viscusi's excellent book, *Risk by Choice.*

An economist at Duke University, Viscusi was a regulatory reformer with President Carter's Council on Wage and Price Stability. He is a leading expert on regulation of workplace health and safety. His book, based on his academic work, is written for a wide audience.

Viscusi argues that there is a market for safety. Workers are paid to take risks; and the greater the risk, the higher the pay. An employer who makes his workplace safer can reduce the wages he pays. This wage reduction, which measures how much his employees value the reduction in risk, gives the employer an incentive to increase safety. He will increase safety if this incentive exceeds the cost of doing so.

But if the risk reduction costs the employer more in labor and capital than it saves him in reduced wages, he will not do so. Furthermore, points out Viscusi, if the government *forces* the employer to increase safety, then workers won't value the additional safety by as much as it cost the employer to produce it.

Is Viscusi's concept of a market for safety realistic? Do riskier jobs pay more? Are workers informed enough about the riskiness of their jobs relative to other jobs to make the market work? Yes, argues Viscusi.

By correlating wages with injury rates, Viscusi shows that the riskier the job, the higher the pay, other things being equal. He estimates the total "risk premium" paid to all US private-sector workers in 1979 at $69 billion, an average of $925 per worker. This average, of course, understates the amount paid to workers in the riskiest jobs. A worker who risks a 1-in-1000 chance of being killed receives annually thousands of dollars in risk premiums alone.

Viscusi notes that the $69 billion paid in risk premiums to US workers in 1979 provides a strong incentive for employers to make workplaces safe. Of course, because employers choose to pay this amount rather than totally eliminate risk, the cost of greater safety must be even more than $69 billion. But, says Viscusi, the striking fact is that this $69

billion is 3,000 times the total penalties levied by OSHA in 1979. It is the extra wages that workers demand to endure unsafe conditions, not OSHA, that makes workplaces safe.

Furthermore, that workers receive risk premiums means at least some of them are informed. Viscusi also presents evidence that the greater the risk of injury in an industry, the higher the proportion of workers in that industry who see their job as dangerous.

Viscusi reports other evidence that the market for safety works. In a table on fatal accident trends since 1930, he shows that as US per capita income has risen, accidental death rates have fallen. Between 1940 and 1980, for instance, the accidental death rate per 100,000 workers fell by *66 percent.* One would predict that as workers became wealthier, they would demand more safety. The figures show that added safety has indeed been supplied.

Viscusi also points out that a reported increase in workplace hazards in the 1960s, used to justify the Occupational Safety and Health Act, was nothing more than a statistical artifact. The injury frequency rate for manufacturing industries compiled by the Bureau of Labor Statistics increased 2.4 percent annually between 1958 and 1970, but the BLS statistics do not distinguish between minor and major accidents. Viscusi presents more meaningful risk measures that all show a decline throughout the pre-OSHA period.

While skeptical of government regulation of workplace health and safety, Viscusi doesn't want to abolish OSHA. Instead, he proposes that the agency shift its focus from regulating workplaces to informing workers. At first blush, this seems reasonable, because Viscusi argues persuasively that information about workplace safety is a public good that is underprovided in a free market. But the public good problem doesn't vanish when the government gets into the information business. Viscusi still needs to show what incentives would get a government bureaucracy to provide the appropriate quantity of valuable safety information to workers. And this he fails to do.

On a less substantive matter, Viscusi at times asserts conclusions from his academic articles without explaining them. For instance, he argues that if workers are not perfectly informed about job risks, employers tend to use new technologies that are not well understood. I don't see why, and Viscusi doesn't show why. Instead, he refers readers to a highly mathematical academic article. But such are minor imperfections in a book full of valuable information and insights.

David Henderson is a senior staff economist with the Council of Economic Advisers. The views expressed here do not necessarily represent those of his employer.

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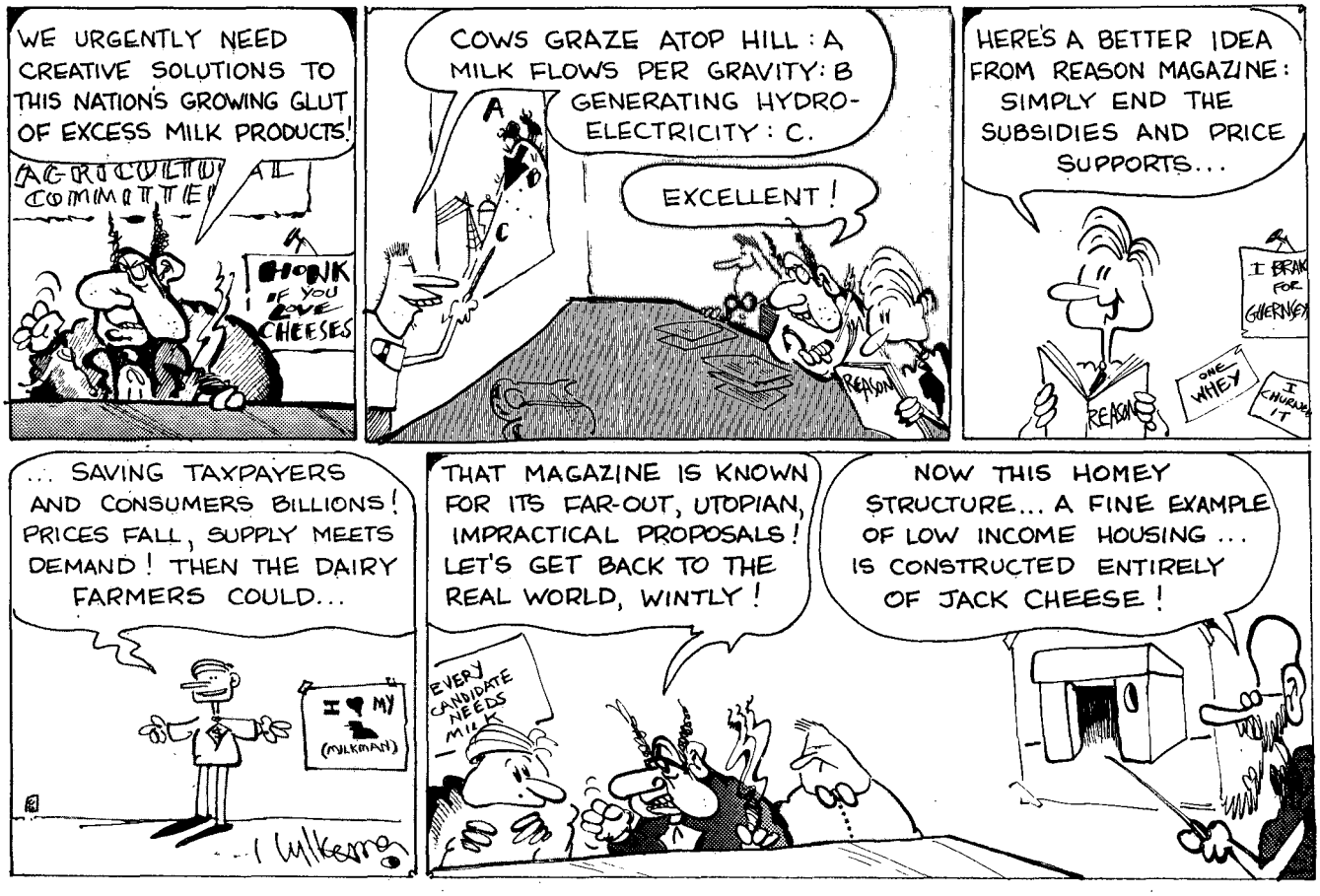
RANDALL K. HYLKEMA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Further & More

HOW TO BANK ON PRIVATE INSURANCE

Why should the government be in the business of providing deposit insurance for banks? As noted in various Trends reports, analysts from the Heritage Foundation to Harvard Law School have recently pointed out how the Federal Deposit Insurance Corporation, free from the real-world constraints of private insurance, fails to restrain foolhardy bankers and penalizes the prudent.

Now, two economists with the Federal Reserve Bank of Dallas have broached the same conclusion. In an article in *Dallas Fed* late last year, Eugenie D. Short and Gerald P. O'Driscoll decried the FDIC's one-size-fits-all premiums for banks. "Sky divers and race-car drivers pay more for accident and liability insurance than do bankers and accountants," they noted, whereas the FDIC charges the *same* premiums to banks regardless of the risk the banks are taking.

The agency has proposed a reform, noted Short and O'Driscoll: basing premiums on three risk categories—normal, high, and very high. But they suggested that this isn't adequate, since regulators still wouldn't face the incentives that the market provides private insurers to determine realistic insurance rates.

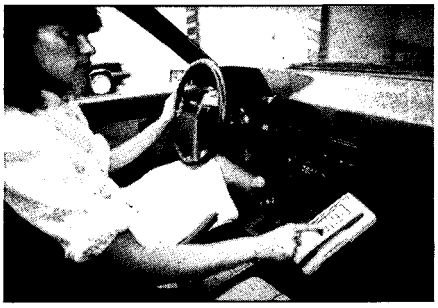
The two Fed economists proposed several policy changes, including the introduction of coinsurance, eliminating the legal requirement that banks purchase insurance from the FDIC, and requiring the FDIC to cover its own cost and earn a reasonable return on capital. While private insurance companies are not able to provide substantial amounts of deposit insurance immediately, "an environment could be created to enable firms to enter gradually as competitors to the FDIC."

CALLING UP THE FUTURE

"Wondrous advances in solid-state physics have conjured up a profusion of technologies providing new means for circumventing—or 'bypassing'—the local phone company." Thus wrote Peter Samuel in REASON's October cover story, "Hanging Up on Your Phone Company."

That future world of greater telecommunications freedom is edging ever nearer. Three recent developments are especially noteworthy.

First, several major car-rental firms have installed cellular radiophones in some of their rental cars in Chicago, where the nation's first cellular system went into operation in October. (Such systems are expected to be operating in 30 cities within two years' time.) Hertz



and Budget each have 100 phone-equipped cars available in the Chicago market, and National has 10.

Second, both AT&T and MCI Communications Corp. are installing in airports credit-card-operated public phones for making long-distance calls. (By federal regulation, only local phone companies are permitted to operate coin phones.) The MCI phones take Visa and Master Card charge cards—thus allowing holders of these cards to use the phones even if they are not subscribers to MCI's discount long-distance service—while AT&T's phones, which use a special AT&T card, are available only to those with AT&T accounts. Both companies are likely to install more of their credit-card phones in bus and train stations and in convention centers as well as in airports, areas where public-phone use is high.

And third, in November New York City's second-largest office-space landlord, Olympia & York, announced plans to set up a satellite communications network linking tenants of the firm's buildings (and thus bypassing the local phone monopoly, New York Telephone). The private network will provide local and long-distance voice communication as well as computer-data communication.

Olympia & York's partner in the communications venture is United Telecom, the nation's third-largest telephone company (after AT&T and GTE Corp.). While New York Telephone is fretting that such a bypass network will significantly cut into the monopoly's revenues by taking away NYT's high-use business customers, United Telecom has realized that bypass is a thing whose time has come. Quoted in the *New York Times*, United Telecom chairman Paul Henson remarked: "We are joining the other side now."

BLAZING BATTLE LOST

In Dover, New Hampshire, the chances of contracting out fire-fighting services have gone up in smoke.

Shortly after we reported on the bitter political struggle in the small New England town over the issue of hiring the Wackenhut Corporation, a private firm, to handle the city's fire fighting ("Blazing Battles," Nov.), Dover held its municipal elections. Of the five city council members who had voted for the contract the previous summer, only three were reelected, shifting the council from a 5-4 majority in favor of contracting to a 6-3 majority against.

At the same time, Dover's voters approved a city charter amendment that effectively prohibits contracting out. It says that all public-safety employees, including police and fire-fighting personnel, must be on the city payroll. The amendment was approved by a vote of 3,688 to 1,971—almost a 2-1 margin.

A few days later, the New Hampshire Supreme Court chipped in with another nix on contracting. The court had been considering two issues: whether the contract between Dover and Wackenhut Corporation was in accordance with state law, and whether local governments generally have authority under the state constitution to contract out for fire fighting.

On the first question, they said that the contract was invalid because Wackenhut had not been certified by the state fire marshal at the time the contract was signed. Wackenhut was certified after the signing of the contract, but the court said that was not enough.

The court said that it was thus unnecessary to address the second and more important question—the constitutionality of contracting for fire fighting.

"They avoided it as best they could," said Scott Woodman, the disappointed city attorney for Dover.

Chalk one up for the fire fighters' union, which was bitterly opposed to a private contract that would have saved Dover's citizens $350,000 in the first three years and put the town on the map with the first privatized fire service in New England.

FOLLOWING THE SATELLITES' PATH

For nearly a year, Congress and the media had been waging a public-relations campaign against the Reagan administration's proposal to denationalize the government's weather satellites (see "Fair Weather," June). Now Congress has passed a Commerce Department appropriations bill forbidding the sale of the weather satellites. But plans to sell off the Landsat remote-sensing satellite system are still on, and competition in remote sensing is heating up.

The original idea, proposed by Comsat Corporation, was to sell both sets of satellites as a package and let income from the weathersats offset projected losses on Landsats. It is somewhat ironic, then, that several firms are now eagerly vying to serve what they see as a commercial market for remote sensing from space.

As reported in Trends in December, one of these firms is Space America, a consortium including private rocket developer Space Services, Inc. Late last year Space America added an impressive new partner to the consortium: Bendix Corp., the giant aerospace firm. Space America still plans to submit a bid to take over the existing Landsat program while continuing development of its own, follow-on remote-sensing satellites.

In November, another consortium entered the picture. Called Sparx Corporation, it is a joint venture of Comsat Corporation, the Stenbeck Group (a New York investment firm), and West Germany's Messerschmidt-Boelkow-Blohm. Sparx intends to *compete* with Landsat, rather than bidding to take it over. The company plans its first test launch on the space shuttle in August and expects to have its system fully operational by 1986.

Sparx plans to offer images with 65-foot resolution, sold to customers—mineral and petroleum organizations initially—on a proprietary basis. By contrast, Landsat's images are nonproprietary and limited to 80-meter resolution. Thus far Space America plans to stick with 80-meter resolution for its follow-on satellites, too, though it also hopes to offer images on a proprietary basis.

THEY BUILT THEIR OWN HIGHWAY, PART II

In mid-November, San Diego's 1½-mile, two-lane Fanita Parkway was opened to traffic. Construction of the $1.3-million artery, also known as Santee Lakes Boulevard, was entirely financed by the Carlton Santee Corp., a residential developer.

As Tom Hazlett pointed out in REASON's November cover story ("They Built Their Own Highway..."), which detailed the ins and outs of private land-use planning in nonzoned Houston, things like privately financed (but freely accessible) roads are supposed to be impossible. The "free rider" problem—that is, the owner's inability to exclude users from the particular good—cannot be surmounted, says the conventional wisdom.

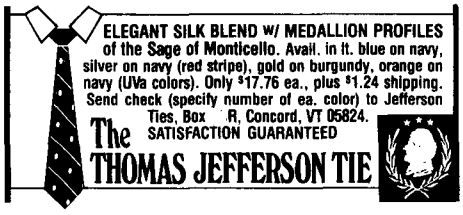
But the Carlton Santee Corp.—like the West Houston Association—apparently hadn't heard about the free-rider problem, so they went ahead and built the parkway. The new boulevard, which has been landscaped with 1,000 trees and 3,000 bushes, is intended to provide access to and from Fanita Ranch, a planned community that Carlton Santee will soon develop.

AND MORE

• *Deregulation fallout.* In December's editorial we stated that "since [airline] deregulation, *no* community has lost all airline service." We stand corrected. Our source was Air Transport Association congressional testimony pointing out (correctly) that of the 555 communities receiving Civil Aeronautics Board–certified service in 1978 (the year the deregulation act was passed), none has been left without airline service. But we have learned that in addition to *those* communities, another 165 small communities were also receiving some form of (noncertified) air service in 1978. Of those small localities, about 100 currently have no airline service at all. But, according to Patrick J. Murphy of the CAB, many if not most of those 100 towns are within an hour or two's drive of an airport with airline service.

• *Comrade Shareholder.* Romania, following the precedent of its neighbor Hungary (Global Trends, Jan.), is now selling stock ("social shares") in factories to workers. But don't the workers in the communist state already own the means of production? They're "contributing additional investment funds," replies one union official.

• *Trust in the market.* While the US Congress is considering the relaxation of antitrust restrictions on joint research and development by private firms (Trends, Oct.), the Common Market may well do the same. The European Community's executive commission is asking member governments to permit some research agreements that would otherwise be outlawed by anti-cartel rules.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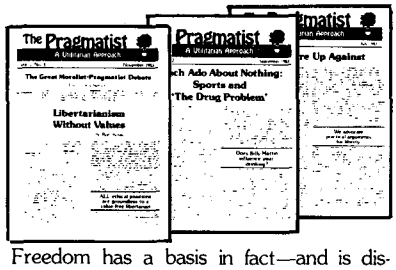

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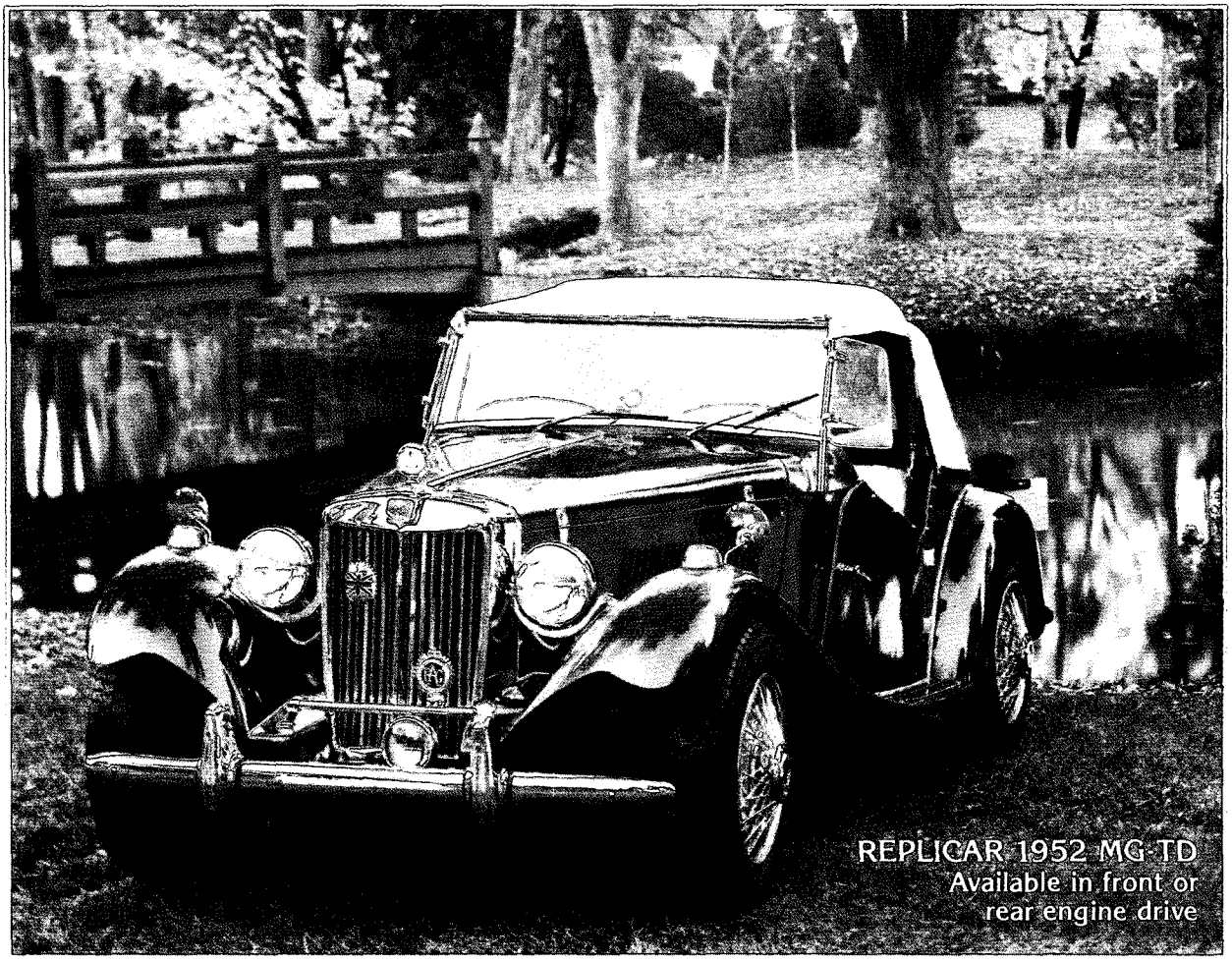

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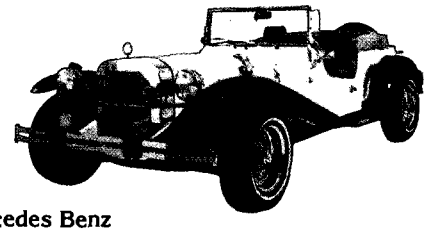

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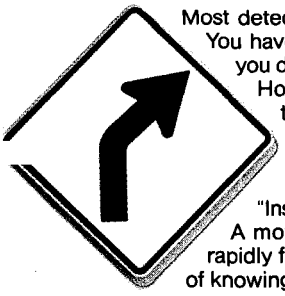

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